HEARING ON CHINA'S BELT AND ROAD INITIATIVE: FIVE YEARS LATER

HEARING

BEFORE THE

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

ONE HUNDRED FIFTEENTH CONGRESS
SECOND SESSION

THURSDAY, JANUARY 25, 2018

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UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

WASHINGTON: 2018

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

The Commission was created on October 30, 2000 by the Floyd D. Spence National Defense Authorization Act for 2001 § 1238, Public Law No. 106-398, 114 STAT. 1654A-334 (2000) (codified at 22 U.S.C. § 7002 (2001), as amended by the Treasury and General Government Appropriations Act for 2002 § 645 (regarding employment status of staff) & § 648 (regarding changing annual report due date from March to June), Public Law No. 107-67, 115 STAT. 514 (Nov. 12, 2001); as amended by Division P of the "Consolidated Appropriations Resolution, 2003," Pub L. No. 108-7 (Feb. 20, 2003) (regarding Commission name change, terms of Commissioners, and responsibilities of the Commission); as amended by Public Law No. 109-108 (H.R. 2862) (Nov. 22, 2005) (regarding responsibilities of Commission and applicability of FACA); as amended by Division J of the "Consolidated Appropriations Act, 2008," Public Law Nol. 110-161 (December 26, 2007) (regarding responsibilities of the Commission, and changing the Annual Report due date from June to December); as amended by the Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015, P.L. 113-291 (December 19, 2014) (regarding responsibilities of the Commission).

The Commission's full charter is available at www.uscc.gov.

February 26, 2018

The Honorable Orrin Hatch
President Pro Tempore of the Senate, Washington, DC 20510
The Honorable Paul Ryan
Speaker of the House of Representatives, Washington, DC 20515

Dear Senator Hatch and Speaker Ryan:

We are pleased to notify you of the Commission's January 25, 2018 public hearing on "China's Belt and Road Initiative: Five Years Later." The Floyd D. Spence National Defense Authorization Act for 2001 § 1238, Pub. L. No. 106-398 (as amended by the Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015 § 1259b, Pub. L. No. 113-291) provides the basis for this hearing.

At the hearing, the Commissioners received testimony from the following witnesses: Nadège Rolland, Senior Fellow for Political and Security Affairs, National Bureau of Asian Research; Jonathan Hillman, Fellow and Director, Reconnecting Asia Project, Center for Strategic and International Studies; Randal Phillips, Managing Partner, Mintz Group; Ely Ratner, Maurice R. Greenberg Senior Fellow for China Studies, Council on Foreign Relations; Daniel Kliman, Senior Fellow, Asia-Pacific Security Program, Center for New American Security Joel Wuthnow, Research Fellow, Center for the Study of Chinese Military Affairs, National Defense University; Andrew Small, Senior Transatlantic Fellow, German Marshall Fund of the United States; Joshua Eisenman, Assistant Professor of Public Affairs, University of Texas at Austin; and Tobias Harris, Economy, Trade, and Business Fellow, Sasakawa Peace Foundation USA. The hearing assessed the status of China's Belt and Road initiative five years on, focusing on its economic, military, and geostrategic drivers and implications, as well as regional reactions and competing visions. The hearing also explored how China's Belt and Road initiative impacts U.S. economic and national security interests.

We note that the full transcript of the hearing is posted to the Commission's website. The prepared statements and supporting documents submitted by the participants are now posted on the Commission's website at www.uscc.gov. Members and the staff of the Commission are available to provide more detailed briefings. We hope these materials will be helpful to the Congress as it continues its assessment of U.S.-China relations and their impact on U.S. security.

The Commission will examine in greater depth these issues, and the other issues enumerated in its statutory mandate, in its 2018 Annual Report that will be submitted to Congress in November 2018. Should you have any questions regarding this hearing or any other issue related to China, please do not hesitate to have your staff contact our Congressional Liaison, Leslie Tisdale, at 202-624-1496 or ltisdale@uscc.gov.

Sincerely yours,

Robin Cleveland
Chairman

Carolyn Bartholomew
Vice Chairman

cc: Members of Congress and Congressional Staff

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CHINA'S BELT AND ROAD INITIATIVE: FIVE YEARS LATER

THURSDAY, JANUARY 25, 2018

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Washington, DC

The Commission met in Room 419 of Dirksen Senate Office Building, Washington, DC at 9:45 a.m., Commissioners Dennis C. Shea and Katherine C. Tobin (Hearing Co-Chairs) presiding.

OPENING STATEMENT OF COMMISSIONER KATHERINE C. TOBIN HEARING CO-CHAIR

HEARING CO-CHAIR TOBIN: Good morning, and welcome to the first hearing of the U.S.-China Economic and Security Review Commission's 2018 Annual Report cycle. Thank you all for joining us, and those of you online as well.

The Commission has been following Xi Jinping's Belt and Road Initiative since its inception in 2013. Since then, we have watched the initiative rise to the top of Beijing's foreign policy agenda, evolving from a vague blueprint for regional connectivity to a well-resourced, whole-of-government strategy.

President Xi's signature foreign policy initiative is many things: an economic stimulus plan; the global face of the "China Dream"; a marketing strategy; an upgrade of Beijing's "going out" policy; a blueprint for economic dominance; and much more.

It's difficult to overstate the potential risks and rewards of the Belt and Road Initiative, both for China and for partnering countries.

Chinese infrastructure projects have the potential to offload some of the excess industrial capacity currently weighing down China's economy. If executed well, they could provide crucial economic opportunities for developing countries around the world. They could also help burnish China's image as a responsible stakeholder and divert attention from more aggressive aspects of its foreign policy.

On the other hand, poorly-run projects that prioritize Chinese gains at the expense of the host country's economy and citizenry would be no more than empty economic gestures and could bring significant unpleasant reputational costs to Beijing.

Perhaps more concerning, Chinese economic engagement could give way to dangerously lopsided bilateral relationships and create opportunities for Beijing to employ greater economic coercion against smaller partner countries.

Security risks abound as well. For example, although the China-Pakistan Economic Corridor is arguably the most developed and promising component of the Belt and Road Initiative, Pakistan has become one of the most dangerous countries in the world for Chinese workers and citizens.

Despite--or perhaps because of--the enormity of the Belt and Road Initiative, some U.S. policymakers, businesses and citizens have struggled to understand the breadth and depth of this effort. So today we hope to shed light on the current status of the PRC's initiative and to consider whether and how it has the potential to reshape Eurasia and diminish our ability to positively influence events in the Central, Southeast and South Asia area.

To our accomplished witnesses, thank you for being here to help us navigate this very important topic with us today. I look forward to hearing from each of you.

I would also like to thank the Senate Foreign Relations Committee staff for securing this room for our use today, and now I will turn the floor over to my colleague and co-chair, Commissioner Dennis Shea.

PREPARED STATEMENT OF COMMISSIONER KATHERINE C. TOBIN
HEARING CO-CHAIR

Hearing on "China's Belt and Road Initiative: Five Years Later"

Opening Statement of Commissioner Katherine Tobin
January 25, 2018
Washington, DC

Good morning, and welcome to the first hearing of the U.S.-China Economic and Security Review Commission's 2018 Annual Report cycle. Thank you all for joining us today.

The Commission has been following Xi Jinping's Belt and Road Initiative since its inception in 2013. Since then, we have watched the initiative rise to the top of Beijing's foreign policy agenda, evolving from a vague blueprint for regional connectivity to a well-resourced, whole-of-government strategy. President Xi's signature foreign policy initiative is many things: an economic stimulus plan; the global face of the "China Dream"; a marketing strategy; an upgrade of Beijing's "going out" policy; a blueprint for economic dominance; and much more.

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OPENING STATEMENT OF COMMISSIONER DENNIS C. SHEA
HEARING CO-CHAIR

HEARING CO-CHAIR SHEA: Well, thank you, Commissioner Tobin, and good morning everyone. I want to thank you all for being here today. I think some of you may have traveled far and wide to join us. So thank you. And appreciate the time and effort you've put into your excellent testimonies.

China does not have a monopoly on plans to facilitate connectivity and trade across Eurasia and the Indian Ocean region. During our hearing today, we will examine regional reactions to China's Belt and Road Initiative as well as competing visions for regional connectivity, which have existed long before the Belt and Road Initiative.

For example, the United States launched the New Silk Road Initiative in 2011. Today, other regional powers, such as India and Japan, are actively promoting their own initiatives to bolster economic growth and infrastructure development. These efforts present opportunities for the United States to work with its allies and partners to provide complementary or alternative options to China's Belt and Road.

Chinese leaders hope the Belt and Road Initiative will advance Beijing's geopolitical interests by improving ties with neighbors, securing supply routes, and expanding China's role in regional and global governance. But deeper involvement abroad also comes with risks, including terrorism and instability, fractious local politics in partner countries, and great power rivalry.

In response to these risks, the People's Liberation Army has accelerated its preparations to protect growing Chinese interests overseas. An increased PLA presence outside of East Asia, driven by the Belt and Road Initiative, will create both geopolitical opportunities and challenges for the United States and requires a thoughtful strategic response from Washington.

Secretary of Defense James Mattis recently said, and I quote, "In a globalized world, there are many belts and many roads, and no one nation should put itself into a position of dictating 'One Belt, One Road'"--unquote.

The United States has a strong interest in maintaining a free and open Indo-Pacific region where international norms and standards are upheld and strengthened. I look forward to hearing our experts this afternoon unpack the strategic implications of the Belt and Road Initiative for U.S. interests and for their recommendations on an appropriate U.S. response.

Before we begin, I would like to remind you that the testimonies and transcript from today's hearing will be posted on our website. That's www.uscc.gov, and also please mark your calendars for the Commission's upcoming hearing on "China's Military Reforms and Modernization: Implications for the United States," which will take place on February 15.

And now I'll turn it over to my colleague, Dr. Tobin.

PREPARED STATEMENT OF COMMISSIONER DENNIS C. SHEA
HEARING CO-CHAIR

Thank you, Commissioner Tobin, and good morning, everyone. I want to thank our witnesses for being here today, and for the time and effort they have put into their excellent testimonies.

China does not have a monopoly on plans to facilitate connectivity and trade across Eurasia and the Indian Ocean region. During our hearing today, we will examine regional reactions to China's Belt and Road Initiative as well as competing visions for regional connectivity, which have existed long before the Belt and Road Initiative. For example, the United States launched the New Silk Road Initiative in 2011. Today, other regional powers, such as India and Japan, are actively promoting their own initiatives to bolster economic growth and infrastructure development. These efforts present opportunities for the United States to work with its allies and partners to provide complementary or alternative options to China's Belt and Road.

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PANEL I INTRODUCTION BY CO-CHAIR KATHERINE C. TOBIN

HEARING CO-CHAIR TOBIN: Thank you.

Our first panel today will explore the economic drivers and implications of the Belt and Road Initiative. We are joined by a truly outstanding group of experts to discuss this subject.

We'll begin with Nadège Rolland, Senior Fellow for Political and Security Affairs at the National Bureau of Asian Research.

Prior to joining the Bureau, Ms. Rolland spent two decades advising the French Ministry of Defense on Asian and Chinese strategic issues. She is the author of the 2017 book China's Eurasian Century: Political and Strategic Implications of the Belt and Road Initiative, which I highly recommend for you to read. It's compelling.

Ms. Rolland will provide testimony today on the economic and strategic drivers and goals of the Initiative, and she'll describe how it has extended China's diplomatic reach and its soft power.

Next we'll hear from Jonathan Hillman. Mr. Hillman is a Fellow at the Center for Strategic and International Studies where he holds the Simon Chair in Political Economy and is the director of the Reconnecting Asia Project. And I want to give a shoutout to that because for those of us who like to see data or visuals, this website is a resource for anyone of us to use. There's a map showing the probably hundreds, or more, projects that are underway as part of the Belt and Road Initiative and the infrastructure projects. But it also contains a database that you're going to be maintaining over time to catalog what's beginning, what's done, what's never got underway, et cetera.

So prior to joining CSIS, Mr. Hillman served as a policy advisor at the Office of the U.S. Trade Representative. He will discuss emerging trends and the Belt Road Initiative's impact on China's trade and investment patterns.

We'll then hear from Randy Phillips. Mr. Phillips is a Partner at the Mintz Group and heads its Beijing office and many of its other Asian operations.

Mr. Phillips spent 28 years with the CIA, ultimately serving as the chief CIA representative in China. He has also served as vice chairman of the American Chamber of Commerce in China.

Mr. Phillips will provide testimony on U.S. companies' participation in the Belt and Road Initiative and identify the opportunities and the risks that U.S. companies face.

So let's begin, and I'd like to remind the witnesses to keep your remarks to seven minutes and that will give us time for questions and answers.

Ms. Rolland, please begin.

OPENING STATEMENT OF NADÈGE ROLLAND, SENIOR FELLOW FOR POLITICAL AND SECURITY AFFAIRS, NATIONAL BUREAU OF ASIAN RESEARCH

MS. ROLLAND: Thank you very much, Commissioner Tobin, Commissioner Shea.

I'd like to start by thanking the Commission and its staff for inviting me to testify as part of today's hearing. It's an honor to be here and a privilege to share this panel with Jonathan and Randal.

It would take a little bit more than the five minutes and 45 seconds that I now have to unwrap what Xi Jinping has himself called the "project of the century." As a matter of fact, it took me over a couple of years of research to try to understand it and a couple of hundred pages to try to describe and explain it.

So I thought that today I would kindly invite you to refer to my written testimony regarding what the Belt and Road Initiative is all about and what purposes it serves from Beijing's perspective, and I would like to focus more specifically on a few questions raised by the Commission staff in preparation for this hearing, as well as on a few points I think might be helpful to keep in mind throughout the day as you listen to my distinguished colleagues' testimonies.

So I would like to make four main points. The first, BRI is not just about infrastructure. Second, it's not just about economics. Third, it's just beginning to take shape. And fourth, Beijing is deadly serious about it.

So let me elaborate on each of these points. First, BRI is generally perceived as an infrastructure project. It's true, but it's not just that. It's really a comprehensive vision for a regional, political, economic and financial integration under Beijing's helm--a region that comprises two-thirds of the world's population and half of the world's current GDP. And as China makes inroads in this vast region, it's inevitably going to reshape the region's economic and strategic landscape.

Second, BRI is the Chinese leadership's answer to China's most pressing economic and strategic challenges. It's not just about economic development. It's also about social stability. It's about securing China's continental periphery. It's about energy security as well as broader political influence and strategic expansion. So it's got many different layers.

Third, regarding its progress to date, it's just beginning to take shape really. There is no official list of projects or countries involved. There is no official map. The contours of BRI appear very amorphous and flexible. It includes older and new projects, some of which were underway before 2013 when Xi Jinping announced it, some of which are only partially funded by China. All of this makes it very difficult to really pin it down.

Difficulties have also emerged in several countries, most recently Pakistan, Nepal and Bangladesh, but nobody, including China's strategic planners, expect it to go smoothly until 2049. Beijing is very aware of the potential hurdles and is working hard to find solutions to overcome them.

Fourth, and my last point, one thing is clear: it's China's level of commitment to make it work. BRI is Xi Jinping's baby, and if we believe that he is as powerful as worldwide experts say he is, there's a big chance that the rest of the Chinese system is doing everything it can to make it happen and succeed. Or, at a minimum, that it bears fruit.

The commitment that China is attaching to BRI has translated in several ways. It's now written in the 19th Communist Party Charter, and thus it sets the overall direction for the

Party's agenda and efforts in years to come. It's a long-term effort. Beijing has mobilized a large array of national resources to support BRI--political, financial, diplomatic, economic, intellectual, et cetera--and the efforts are coordinated at the very top by a Leading Small Group that is staffed by Politburo members and on a day-to-day basis by the NDRC, the National Development Reform Commission.

All of China's major economic and development plans--the 13th Five-Year Plan, the Made in China 2025, the Internet Plus Strategy--all of them overlap and dovetail with Belt and Road.

And, yes, there's a certain degree of improvisation and flexibility in the way BRI is unfolding, but these are just I think the characteristics of a system that works differently than ours and relies more on the propensity of things than on a step-by-step plan and program. It does not mean that it is stupid or irrelevant.

As a conclusion, I would like to underline that BRI's intangible manifestations are as important, if not more, than its actual physical development. It is the multi-layered web of political, economic, educational, industrial and security ties that China is developing with the developing world and that China is weaving right under our eyes that will shape tomorrow's Eurasian economic and geostrategic landscape.

The objective is an unrivaled Chinese influence over a key region of the world. This is what really is at stake with Belt and Road. This is what the Chinese regime is determined to achieve, and this is why we need to take it very seriously.

Thank you very much for your attention.

PREPARED STATEMENT OF NADÈGE ROLLAND, SENIOR FELLOW FOR POLITICAL AND SECURITY AFFAIRS, NATIONAL BUREAU OF ASIAN RESEARCH

Testimony before the U.S.-China Economic and Security Review Commission
Hearing on: "China's Belt and Road Initiative: Five Years Later"

January 25, 2018

Nadège Rolland
Senior Fellow, The National Bureau of Asian Research

The Belt and Road Initiative (BRI) is generally understood as China's plan to finance and build infrastructure projects across Eurasia. Infrastructure development is in fact only one of BRI's five components which include strengthened regional political cooperation, unimpeded trade, financial integration and people-to-people exchanges. Taken together, BRI's different components serve Beijing's vision for regional integration under its helm. It is a top-level design for which the central government has mobilized the country's political, diplomatic, intellectual, economic and financial resources. It is mainly conceived as a response to the most pressing internal and external economic *and* strategic challenges faced by China, and as an instrument at the service of the PRC's vision for itself as the uncontested leading power in the region in the coming decades. As such, it is a grand strategy[1].

1. Belt and Road: What is It?

The Belt and Road Initiative was not announced as such five years ago, but in two separate speeches given by Xi Jinping: the first in Astana in September 2013, announcing China's willingness to create a Silk Road Economic Belt stretching across land from China to Europe; the second in Jakarta in October 2013, mentioning China's desire to launch its equivalent at sea, the 21st Century Maritime Silk Road. Both proposals rapidly got combined under the abbreviation "One Belt, One Road," an English translation officially replaced in 2015 by "Belt and Road Initiative" (BRI), supposedly to counter the impression that China owned the concept and to reflect its willingness to welcome others' participation. The basic idea is that infrastructure building (roads, railways, port facilities, pipelines, fiber optic and IT networks) across Eurasia will bring economic development to a large region spanning East to West from China's eastern shores to Europe via Russia, Central Asia, South Asia and the Middle-East, and from China's southern shores to Southeast Asia, the Indian ocean rim, the Persian Gulf and the Mediterranean. This is a vast region mainly composed of emerging markets and rising middle classes and which, taken together, accounts for two thirds of the world population and over half of the global GDP.

Since 2014, BRI has rapidly materialized through:

- promises of Chinese investments with amounts oscillating between $1 and 1.3 trillion dollars, backed, among others, by the creation of new financial mechanisms such as the Asian Infrastructure Investment Bank (proposed in October 2013, officially opened in January 2016) and the Silk Road Fund (created in 2014);
- an intense high-level round of Chinese diplomatic engagement, supported by a forceful propaganda campaign relayed by Chinese scholars and media around the globe, and crowned by the Belt and Road International Forum held in Beijing in May 2017;

[1] This testimony draws on the conclusions and research findings of my book, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, NBR, 2017.

- the successful initiation of an impressive array of projects extending across the continental and maritime domain.

Sparing no modesty for a plan he personally designed with a handful of close advisors, Xi Jinping hailed BRI as the "project of the Century." If successful, BRI certainly has the potential to fundamentally change the economic and strategic geography of the region.

2. What Purpose Does It Serve?

Even though BRI is officially portrayed and projected outside China as an economic endeavor that is meant for the benefit of the entire region, the internal discussions related to the project reveal it is mostly intended to serve China's interests and objectives, both in the economic and strategic domains.

- *On the economic side,*

BRI should be understood, at least partly, as a new stimulus package for the Chinese economy whose last double-digit growth was recorded in 2010. Right after the 2008 global financial crisis, the Chinese government quickly launched a $586 billion stimulus package, heavily investing in domestic infrastructure projects in order to help sustain growth. This measure only had a short-lived positive effect. The government needed to find another solution to be able to hit its self-imposed target of doubling GDP and per capita income between 2010 and 2020. From the regime perspective though, a thorough transformation of the country's economic development model towards domestic consumption and private initiative would have come at unacceptable political cost. Instead of veering towards such a transformation, the government decided to rely once again on its preferred model, stimulating growth through investment, exports and subsidies to state-owned enterprises (SOEs), operating outside of China on a regional scale, via BRI.

Building infrastructure across Eurasia would also have the double advantage of helping to get rid of some of China's excess industrial capacity that had been created by the 2008 stimulus package, while further supporting the state conglomerates' "going global" strategy. Funded by Chinese policy banks (Eximbank, China Development Bank) and staffed by Chinese workers, regional infrastructure projects would predominantly become the preserve of China's SOEs (China State Construction Engineering, China Railway Construction, State Grid, China Merchants, etc.), opening new markets for them and helping them build and scale a truly global footprint. Finally, it was hoped that BRI would help increase regional e-commerce and cross-border transactions conducted in renminbi, thus accelerating the Chinese currency's internationalization.

- *Beyond the supposed multiple economic gains BRI would bring to China, its architects also believe it will help reap substantial political and geostrategic benefits for their country.*

First among these, and consistent with what the Chinese Communist Party (CCP) has tried to do for almost two decades albeit with uneven results, the hope is that more investment in regional infrastructure will help reduce the development gap between China's coastal and inner provinces. Sandwiched between its own eastern urbanized dynamic coastal poles, and emerging economies with increasing potential outside of its western and southern borders, China's landlocked provinces lag behind in term of economic development. Development and enhanced living standards are seen by Beijing as key factors to reduce the risk of social unrest and political instability. They are also seen as the best ways to discourage religious radicalization, fundamentalism, and terrorist recruitment - both within China's borders and beyond.

Second, the acceleration of investments in infrastructure induced by BRI would enable Beijing to tackle another of its recurrent anxieties, this time related to its energy security. For years, Beijing has been uneasy at the thought that its energy imports transit through sea lanes of communication that are under the protection and surveillance of the U.S. Navy including in the South China Sea. Beijing has been looking for alternative routes to circumvent the so-called "Malacca Strait dilemma" and diversify its supplies through land routes. The projected and current BRI projects illustrate an attempt to redraw the map of China's energy supply routes from Iran, the Gulf countries and eastern Africa, while increasing its imports from Russia and Central Asia. Traveling by sea/land pipelines through Pakistan and Myanmar, or directly by land across Eurasia, some of China's energy imports would thus bypass the South China Sea, reducing the risk of being cut by a potential American naval blockade in case of a military conflict.

Lastly, China's financial, political and diplomatic investment in BRI does not come out of a heartfelt Chinese commitment to serve the common good. In return for its largess, China expects to get some concrete geopolitical benefits for itself. BRI's architects are blurring the lines between economy and strategy, and intend to use economic power as an instrument for strategic purposes.[2] Instead of gunboat diplomacy and coercive military power, the PRC intends to use BRI to access new markets, get a hold on to critical infrastructure assets, and influence regional countries' strategic decisions. Economic leverage will be used both as an incentive to garner support for its interests and reduce potential resistance, and as a means to punish recalcitrant countries.

Beijing expects that its plan will help "expand its circle of friends" - in other words, strengthen its influence in a vast area where democratic practice is weak, authoritarian regimes mostly prevail, and where the US influence is rather limited. In this region, as in countries facing increasing waves of discontent against globalization, there is a real prospect that following the "China model" could become increasingly appealing. Liberal democratic ideals and standards that the U.S., together with its European and Asian allies, have been trying to promote over the region as part of their shared post-Cold War vision of an "open and free" Eurasian continent,[3] will likely come under increasing threat as BRI's standards (or lack thereof) spread across this vast region.

Under Xi Jinping, China has been increasingly vocal about its dissatisfaction with the current world order. During his 19th Party Congress speech last October, Xi presented China's path as "a new option for other countries and nations who want to speed up their development while preserving their independence."[4] Starting with the countries included along the Belt and Road that Xi purports to include in a "community of common destiny," the PRC now offers a recipe

[2] Professor Shi Yinhong calls this "strategic economy." See his paper, "China's Complicated Foreign Policy," ECFR Commentary, March 31, 2015, http://www.ecfr.eu/article/commentary_chinas_complicated_foreign_policy311562.

[3] After the end of the Cold War, several Western countries tried to promote infrastructure interconnectivity and economic development in the hope that prosperity would transform post-Communist Eurasia into a democratized and peaceful region.

[4] "Full Text of Xi Jinping's Report at the 19th CPC National Congress," *Xinhua*, November 4, 2017, http://www.chinadaily.com.cn/china/19thcpcnationalcongress/2017-11/04/content_34115212.htm

for stability and prosperity, just like the one it has used for itself, and it is trying to convince the rest of the world that the Chinese way is the way of the future.

3. Internal Mobilization

BRI is meant to improve both China's economic situation and its security environment in order to realize Xi Jinping's "China dream of the great rejuvenation of the nation." It is the organizing concept of Xi's vision for China as a rising global power with unique national characteristics. It sets the general long-term direction for China and seeks to mobilize and coordinate the use of all available national resources (political, economic, diplomatic, military and ideological) to pursue internal (economic development, social stability) and external (foreign policy, national security) objectives in an integrated way. As such, it is a grand strategy that is meant to serve China's unimpeded rise to great power status.

Because there exists no official map, no detailed publicly available list of projects, priorities, plans or even targeted countries, no Belt and Road "national task force," no Belt and Road "special representative" or general secretary, some observers have dismissed BRI as empty talk. But a closer look at the inner workings of the Chinese system reveals a high degree of vertical coordination for the initiative domestically. Such a mobilization effort reflects the priority attached to it by the central government. The top-level plan trickles down to all bureaucratic levels:

- The idea was conceived by Xi Jinping and his closest advisors, including Wang Huning, before he came to power in November 2012.
- On March 28, 2015, the National Development and Reform Commission (NDRC), jointly with the Ministry of Foreign Affairs and the Ministry of Commerce issued a document entitled "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road." The document reads more like a general roadmap than a concrete and detailed proposal, but is the first attempt to give the outside world some sense about the government's vision.
- Also in March 2015, a central leading small group on "advancing the development of the belt and road" was set up, staffed by five Politburo members, indicating the central leadership's determination to coordinate all aspects of the initiative and oversee its implementation at the highest level. The day-to-day management and coordination work with relevant ministries and entities has been assigned to the NDRC, which is hosting an "Office of the leading group" for BRI.
- BRI seminars, workshops and study sessions are regularly being held at intermediary levels of the bureaucracy so that the information gets circulated to all relevant entities.[5] Through its in-house think-tank (the China Center for Contemporary World Studies, CCCWS), the CCP's International Liaison Department acts as the national secretariat for research activities related to BRI, both inside China and with foreign think-tanks along the Belt and Road. Scholarly exchanges, seminars and conferences organized

[5] See for example, "Maritime Silk Road "Belt and Road" Seminar Held in Hainan Marine Police Training Base, WeChat, January 8, 2018, accessed at https://mp.weixin.qq.com/s/-QnrH9P5bFAf_Zl1EnY6lQ, "Ou Xiaoli: China Does Not Impose any Political Standard on 'Belt and Road' Cooperation," *Caijing*, November 30, 2017, accessed at http://finance.sina.com.cn/meeting/2017-11-30/doc-ifypceiq8353251.shtml, and "Zhang Gaoli: Advancing the Construction of Belt and Road by Persevering in Joint Discussions, Joint Building and Joint Development ; Creating a New Pattern of Linkages between Land-Sea and East-West," *Xinhua*, January 15, 2016, accessed at http://www.chinatax.gov.cn/n810219/n810744/n1671176/n1671181/c2003599/content.html

domestically and around the world, are supposed to "provide sustained intellectual support" and "promote better understanding" of BRI in wider audiences.[6]
- Five additional documents, including some specifically dedicated to the maritime, energy, agriculture, and green cooperation along Belt and Road countries, have been published in 2017.[7]
- During the October 2017 19th CCP Congress, BRI was incorporated into the Party charter. This latest addition shows the overall direction given to the Party in its efforts to make progress on the BRI front for the upcoming five years.

In addition, BRI has been integrated into the 13th Five-Year plan (2016-2020) and dovetails the "Made in China 2025" plan and China's "Internet Plus" strategy:

- The 13th Five Year plan devotes a chapter to BRI and gives "high priority to implementing the strategy for the large-scale development" of China's inland provinces.[8] Xinjiang is named in the document as the core area of the Silk Road Economic Belt, and Fujian as the core of the 21st-Century Maritime Silk Road, but the overall objective is to make sure all of China's most backward provinces benefit from greater economic opportunities offered by enhanced cross-border trade.
- Meanwhile, the "Made in China 2025" plan released in May 2015 aims, among other objectives, at upgrading the PRC's 10 key high-tech industries, five of which are directly related to BRI's development: aviation and aerospace, electrical power, next generation information technologies, rail transportation and marine technologies.
- Finally, China's "Internet Plus" strategy, announced in March 2015 with the intent of fostering a strong domestic high-tech digital sector (mobile Internet, cloud computing, big data and Internet of Things) also overlaps with BRI's pledge to support "e-commerce, digital economy, smart cities and science and technology parks" in Belt and Road countries[9] as part of the Chinese government's vision of a "Silk Road in cyberspace" that will materialize through the building of IT networks (subterranean and subsea fiber-optic cables, Beidou satellite coverage), increased regional e-commerce and even "exchanges in cyber culture." A document issued in March 2017 on China's "International Strategy of Cooperation in Cyberspace" officially calls domestic Internet companies to "take the lead in going global," and specifically mentions BRI when it encourages them to "explore international market and build cross-border industrial

[6] He Na, "Think Tank to Support Belt and Road Initiative," *China Daily*, February 24, 2016, accessed at http://usa.chinadaily.com.cn/china/2016-02/24/content_23617083.htm
[7] "Building the Belt and Road: Concept, Practice and China's Contribution," Office of the Leading Group for the Belt and Road Initiative, May 2017, accessed at https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf ; "Vision for Maritime Cooperation under the Belt and Road Initiative," June 20, 2017, accessed at http://english.gov.cn/archive/publications/2017/06/20/content_281475691873460.htm ; "Vision and Action on Jointly Promoting Agricultural Cooperation on the Belt and Road," May 2017, accessed at http://english.agri.gov.cn/news/dqnf/201705/t20170512_247847.htm; "Vision and Actions on Energy Cooperation in Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road," accessed at https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydylgw/201705/201705161049036.pdf ; "Guidance on Promoting Green Belt and Road," May 2017, accessed at https://eng.yidaiyilu.gov.cn/zchj/qwfb/12479.htm.
[8] "The 13th Five Year Plan for Economic and Social Development of the People's Republic of China (2016-2020)," accessed at http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf
[9] "Joint Communiqué of Leaders Roundtable of Belt and Road Forum," *Xinhua*, May 15, 2017, accessed at http://news.xinhuanet.com/english/2017-05/15/c_136286378.htm

chain, (…) actively engage in capacity building of other countries and help developing countries" with several e-sectors in order "to contribute to their social development."[10]

4. Five Years Later: Is It Real?

Even more difficult to find than a detailed BRI plan laid out by Beijing, is a list of projects that have actually come to life since 2013. During the May 2017 Belt and Road Forum, the Chinese government published a "list of deliverables" purporting to show that over 270 "concrete results" had been achieved in each of the five BRI areas, but mostly listing MoUs and cooperation documents signed with the UN, national governments, and relevant agencies within Belt and Road countries.[11] Some Chinese governmental sources have pointed out that about 50 SOEs "have invested or participated in nearly 1,700 projects in countries along the new Silk Road routes over the past three years."[12] It is nevertheless a challenge to pin them down, partly because some of these projects were discussed, decided upon and/or were underway before 2013 (for example, Gwadar started in 2002, Hambantota in 2008), others have been announced with MoUs signed and promises of investment made, but have not yet sprung from the ground. Sometimes, the amounts of investment promised do not add up or China seems to have been promising the same amount several times over the years. Some projects have been started by other countries but funded either partially or totally by China, or have been announced by China but funded partially by non-Chinese financial institutions (such as ERDB, ADB and the World Bank). Should these also be counted as Belt and Road projects?

BRI is a work in progress, still in its early phase, with a completion date set by Beijing for the mid-21st Century. Cross-border infrastructure projects are some of the most difficult to implement as they require complex and often protracted negotiations over proposed routes, development rights, financing and investment returns. After all, it took the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) almost 15 years between the launching of its Asian Land Transportation Infrastructure Program in 1992 and the signing of intergovernmental agreements on the Asian Highway Network (2003) and Trans-Asian Railway Network (2006). In contrast, it took China less than five years to launch and operate a multilateral financial institution (AIIB), and to create global momentum around Eurasian infrastructure building. No head of State or government across the large geographic area included in BRI has not heard about the Chinese initiative, included BRI in their diplomatic agendas for dialogues with Chinese counterparts, paid careful attention Beijing's promises of capital and of a new type of "mutually beneficial cooperation," and started to think about how their country could benefit from it, one way or another. What country, other than China, shows as much consistency and apparent dedication in its political, diplomatic and financial commitment to such a complex, diverse, unstable, and conflicted region, one that has been struggling for years to achieve economic development?

Yes, difficulties have emerged. Pakistan and Nepal, for example, have recently announced that they are reconsidering some BRI projects, because of unacceptable financing conditions in the

[10] "International Strategy of Cooperation on Cyberspace," Ministry of Foreign Affairs and Cyberspace Administration of China, March 02, 2017, accessed at http://usa.chinadaily.com.cn/epaper/2017-03/02/content_28410278.htm
[11] "List of Deliverables of Belt and Road Forum," *Xinhua*, May 15, 2017, accessed at http://news.xinhuanet.com/english/2017-05/15/c_136286376.htm
[12] Wu Gang, "SOEs Lead Infrastructure Push in 1,700 'Belt and Road' Projects," *Caixin*, May 9, 2017, accessed at https://www.caixinglobal.com/2017-05-10/101088332.html

first instance and irregularities in the bidding process in the second.[13] BRI will probably encounter more setbacks in the future, including local resistance to Beijing's financial conditions, an influx of Chinese manpower, or potentially harmful environmental impacts. But the Chinese government is well aware of the potential obstacles that lie ahead, and is working hard to anticipate and overcome them.

And yes, there's a certain degree of improvisation and flexibility in the way BRI is unfolding; but that doesn't mean it is not real. These characteristics are just a reflection of a system that works differently than ours. Assessments of success based on calculations of economic returns, quantifiable results and objective performance criteria, are not the most important and may not even be relevant in cases where projects have clearly been chosen, not for their economic profitability, but rather out of geopolitical motives.

The intangible manifestations of BRI are as important, if not more, than its actual concrete physical progress. With BRI, Beijing is not only strengthening its image as a truly global power, it is also developing a multi-layered web of political, economic, educational, industrial, and security ties with two-thirds of the world's population, sowing seeds that will shape tomorrow's Eurasian economic and geopolitical landscape. After all, BRI's success is not going to be counted in miles of railways laid on the ground, nor in pounds of steel exported to emerging markets, but in increased Chinese influence and possible domination over a key region of the world. This is what is at stake. This is what the Chinese regime is so determined to achieve. This is why we need to take BRI seriously.

5. Recommendations

- Recognize that BRI is about more than just infrastructure building, and that even its infrastructure component is problematic in terms of good governance standards.
- Be realistic about how engaging or cooperating with China on BRI will be able to "shape" and persuade the Chinese elites to change the course they have set for their country.
- Call out more systematically what is wrong with BRI and be more vocal about China's attempts to deprive concepts such as openness and globalization of their original substance and meaning.
- Formulate alternatives, and coordinate with other liberal democracies to achieve them.

[13] The first project is Pakistan's $14 bn Diamer-Basha dam on the Indus River, and the second, Nepal's $2.5 bn Gandaki hydropower plant. See Ilaria Maria Sala, "More Neighbors Are Saying 'No Thanks' To Chinese Money – For Now," *Quartz*, December 4, 2017, accessed at https://qz.com/1136000/more-neighbors-are-saying-no-thanks-to-chinese-money/

OPENING STATEMENT OF JONATHAN HILLMAN FELLOW AND DIRECTOR, RECONNECTING ASIA PROJECT, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

HEARING CO-CHAIR TOBIN: Thank you, Ms. Rolland.

Mr. Hillman.

MR. HILLMAN: Thank you for the opportunity to testify today.

In keeping with the panel's theme, I will focus on the Belt and Road's economic dimensions. Very briefly, I'd like to just touch on four areas: first, key trends in Belt and Road projects; second, China's tools for advancing the Belt and Road; third, the Belt and Road's economic and political impacts; and also implications for the United States.

As has been mentioned, I think the Belt and Road is probably the best known but least understood foreign policy effort underway today. And for all the attention it receives, there's little reliable information about how it's unfolding in aggregate.

A major challenge is that the BRI label evades classification, both geographically, temporally, functionally, and I think by design, the BRI is really a vision and in some cases a loose brand more than it is a masterplan with strict criteria for inclusion.

Infrastructure is not the only component of the Belt and Road, but it is a major component, and I think it's important in that it provides a window into the Belt and Road's drivers and broader implications. And for the past three years, CSIS has been tracking infrastructure projects across the Eurasian supercontinent.

We have a database of about 2,200 projects--transportation projects--that include not only Chinese-funded projects but what others are doing in the region, and as that database grows, several trends are emerging. I'll just note one of them that has I think both economic and political implications.

So one major question about the Belt and Road is its openness, you know the degree to which others can participate and benefit from it. And our data to date suggests that Chinese projects are less open to local and international participation.

Out of all the contractors participating in Chinese-funded projects within our database, about 89 percent are Chinese companies, about seven percent are local companies, meaning that they're headquartered in the same country where the project is taking place, and about three percent are foreign companies so non-Chinese companies from a country other than the one in which the project was taking place.

The mix of contractors for projects funded by the World Bank and Asian Development Bank is much more evenly distributed, and I think this finding, while not shocking to those of us who follow this, it does remind us that despite official rhetoric about the Belt and Road being open and global, it is, I think, first and foremost, a Chinese-centric effort.

These trends could change over time, as has been mentioned. This is a very long-term initiative, and it's also possible that Western firms are more competitive in other areas such as providing consulting and legal services.

And I think over the longer term even China stands to benefit from greater transparency and openness. Right now, there is I think genuine interest among U.S. and other Western firms in participating in Belt and Road related projects, but unless more opportunities are made for them to do so, I think that interest will wane and suspicion will rise.

China uses several tools to boost its exports, many of them now falling under the Belt and Road banner: national champions; credit; infrastructure; and trade agreements. I think we could spend an entire hearing discussing any one of those but what's I think equally important is how China is bringing those tools together.

Its approach is what I think is both centralized but flexible. It's centralized in that when a recipient country receives an offer from China, it often interacts with all the key actors who present a more unified front, and this is in contrast to the traditional Western approach, which involves dealing separately with a wider range of less coordinated actors.

China is also flexible because it's willing to work with any government. It's willing to build to budget and with less stringent requirements for meeting safeguards, and it's willing to accept often a broader range of payment terms.

I think this approach magnifies the short-term incentives for starting projects, but I think it also masks some long-term risks.

The BRI's political and economic impacts I think could be even, even contradictory over the longer term. Right now I think we see evidence of the Belt and Road's political success, but over the long term that political impact will depend on implementation of these projects.

So politically--I think this will be covered later today--China is already becoming closer with traditional partners like Pakistan. It's making deeper ties and inroads with countries further west such as those in Eastern and Central Europe. Several countries have announced their intentions to link their own development strategies with the Belt and Road.

But economically and politically, the Belt and Road also faces some near-term constraints and longer-term challenges. When smaller economies do business with China, I think we need to remember that they're not directly aligning themselves. They're often trying to balance. And so, you know, you see a competition that is emerging not only between--it's not just China, but there are other regional actors who are quite involved--Japan, India, Russia, others, South Korea.

Not all of the Belt and Road's political impacts have been positive to date. I think there is an emerging gap between expectations among countries who have joined the Initiative and the benefits that they've received for doing so.

And over time, I think that support for the Belt and Road could change depending on how it's implemented. It could decline and even turn against China. We need to remember that large infrastructure projects are rarely delivered on time, on budget and with their promised benefits, even in the best business environments, and so when projects disappoint for any reason, which they I think will inevitably do so over the coming years, China stands to suffer some reputational damage. And it's possible that what looks like boldness today could look like hubris in two decades.

The United States has a range of economic interests at stake, and I'm hoping we can maybe discuss a bit of that today. I think there's the obvious commercial interest. There's also a longer-term broader economic interest in the stability of major systems--trade, finance, and so on.

And I think that a Belt and Road that succeeds on China's terms would revise those systems to reflect Chinese interests. A Belt and Road that fails would also have consequences for the U.S. that would not be positive. I think, you know, a Belt and Road that fails spectacularly could harm regional growth, and that would have implications for us as well.

So I will leave it there, and I look forward to unpacking some more of that further. Thank you.

**PREPARED STATEMENT OF JONATHAN HILLMAN
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Statement Before the
U.S.-China Economic and Security Review Commission

"China's Belt and Road Initiative: Five Years Later"

A Testimony by:

Jonathan Hillman

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Introduction

Thank you for the opportunity to testify on China's Belt and Road Initiative (BRI), and its implications for U.S. interests. The Commission asked me to focus on the BRI's economic dimensions. I will address four key questions in this regard:

- What are the key trends in BRI projects to date, and to what extent do BRI projects follow market rules and international standards?
- What tools has Beijing used to boost Chinese exports under the BRI?
- How has the BRI affected China's trade and investment patterns, its diplomatic reach, and its soft power?
- What are the economic implications of the BRI for the United States?

After addressing these questions, I will conclude with brief recommendations for Congressional action.

Hot Spots and Blind Spots: Key Trends in BRI Projects

The BRI is the most ambitious geoeconomic vision in recent history. Spanning some 70 countries, it can claim to cover more than two-thirds of the world's population. It could include Chinese investments approaching $4 trillion.[1] It intends to strengthen hard infrastructure with new roads and railways, soft infrastructure with trade and transportation agreements, and even cultural ties with university scholarships and other people-to-people exchanges. In all these ways, when much of the West is looking inward, China is connecting with the world.

The BRI is also the best-known, least-understood foreign policy effort underway. Beyond investments in actual projects, China spends significant resources organizing BRI events, promoting BRI stories, and conducting other outreach. Recognition within and outside China has been growing. Chinese state media claim that global awareness of the BRI has tripled between 2014 and 2017, increasing from 6 percent to 18 percent in a survey of 22 countries.[2] Nearly 30 world leaders and representatives from 110 countries and international organizations attended the BRI Forum in May 2017. The event, hosted by President Xi Jinping, received significant global coverage. Attention and awareness continues to climb, especially in the West. In recent weeks, the Financial Times,[3] the New York Times,[4] and other international outlets have all included reporting on BRI-related projects.

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[1] "Our bulldozers, our rules," *The Economist*, July 2, 2016. https://www.economist.com/news/china/21701505-chinas-foreign-policy-could-reshape-good-part-world-economy-our-bulldozers-our-rules. Some estimates for fully implementing the BRI are even higher, reaching $8 trillion.
[2] Martin Guo, "2016-2017 China National Image Global Survey," Kantar, January 11, 2018. https://us.kantar.com/business/brands/2018/2016-2017-china-national-image-global-survey/
[3] Emily Feng, "China-Kazakhstan border woes dent Silk Road ambitions," *Financial Times*, December 20, 2017. https://www.ft.com/content/1606d70a-9c31-11e7-8cd4-932067fbf946
[4] Andrew Higgins, "China's Ambitious New Port: Landlocked Kazakhstan," *New York Times*, January 1, 2018. https://www.nytimes.com/2018/01/01/world/asia/china-kazakhstan-silk-road.html

But for all the attention the BRI receives, there is little reliable information about how it is unfolding in aggregate. A major challenge is that the BRI label evades classification. There is no agreed-upon definition for what qualifies as a BRI project.[5] There are roughly 70 countries participating in the BRI, according to Chinese state media. Yet there are Chinese-funded projects in non-participant countries that share many of the same characteristics. The BRI was officially launched in November 2013, but projects started years earlier are often counted. The BRI banner hangs over a wide and ever-expanding list of activities. There are BRI fashion shows, concerts, and art exhibits. By design, the BRI is more a loose brand than a program with strict criteria.

Infrastructure is a major component of the BRI and provides a window into its drivers and broader implications. For three years, the Reconnecting Asia Project at the Center for Strategic and International Studies (CSIS) has been tracking infrastructure projects across the Eurasian supercontinent. Our website, ReconnectingAsia.CSIS.org, has an interactive map, an open-source database of over 2,200 transportation projects, and expert analysis. To date, this database has focused on transportation projects: road, railroads, seaports, and dry ports. It will expand in the future to include power plants, pipelines, telecommunications, and other connectivity infrastructure. China is not the only focal point of this database, which covers all funders, but it is the most active.

As this database grows, several trends are emerging. First, China is often the biggest spender, but it is not the only consequential actor. Across the Eurasian supercontinent, three zones of competition are emerging. In Southeast Asia, Japan is outspending China in several countries. In Central Asia, the Asian Development Bank and other multilateral development banks (MDB) have significant activities underway. In Eastern and Central Europe, European funders remain dominant in many countries. To be sure, this is not a zero-sum contest, and there are numerous projects with both Chinese and MDB funding. These areas will be important to watch as China continues to compete with, and adapt to, other visions for connectivity.

Second, Chinese projects are less open to local and international participation. Out of all contractors participating in Chinese-funded projects within the Reconnecting Asia database, 89 percent are Chinese companies, 7.6 percent are local companies (companies headquartered in the same country where the project was taking place), and 3.4 percent are foreign companies (non-Chinese companies from a country other than the one where the project was taking place). In comparison, out of the contractors participating in projects funded by the multilateral development banks, 29 percent are Chinese, 40.8 percent are local, and 30.2 percent are foreign.

These findings illuminate some difficult practical and political realities. Practically speaking, it should not come as a surprise that Chinese companies are winning more contracts for Chinese-funded projects. Despite official rhetoric about the BRI being open and global, it is a China-centric effort. Chinese companies are also extremely competitive in the transportation sector. It is possible that Western firms are more competitive in providing related services around these projects, such as consulting and legal services, but further research is needed. China's advantage also stems from some of the tools it uses, which are explained further in the next section.

[5] Rather than adopt a superficial definition, I use the phrase "BRI-related project" broadly to describe infrastructure projects with Chinese funding.

Third, Chinese projects are less transparent at earlier stages of the project lifecycle. The Reconnecting Asia Project recently ran an experiment that scored the project pages in our database for completeness. Projects with more data fields completed received more points. Scoring was adjusted based on the project status. A project that is just under negotiation, for example, would not be expected to have as much information as a completed project. We found no meaningful difference in the amount of information available for Chinese-funded projects versus projects supported by various multilateral development banks. They all scored in the low to mid 80's out of 100, roughly B's and B-minuses.

But transparency is tricky. How do you evaluate projects that you cannot find? To get closer to answering that question, we examined the status levels for projects in our database. We have six status levels – beginning with "announced" and ending with "completed" or "cancelled" – and there are some projects for which the status is unknown. What jumped out in this comparison between MDB projects and projects from the China Development Bank is the difference in early stage projects. About 7 percent of our MDB projects are marked as announced, which is the earliest stage in our database. To date, the database does not have any China Development Bank (CDB) projects in the earliest stage ("announced"), and it has a higher percentage of CDB projects that are completed.

These trends could change over time. Indeed, it is in everyone's long-term interest that projects are open and transparent. Greater openness and transparency benefits recipient countries by ensuring the companies participating are the best for the job. If there is little or no information available publicly about early stage projects, it is impossible to have an open and fair competition. Even China stands to benefit over the longer term. Right now, U.S. and other Western firms are genuinely interested in participating in BRI-related projects. But unless there are more opportunities to participate, that interest will wane and suspicion will rise. More countries will start to ask why they joined the BRI, and those that have not joined will not.

The Visible Hand: China's Tools

China uses several tools to boost its exports, many of them now falling under the BRI banner: national champions, credit, infrastructure, and trade agreements. Chinese state-owned enterprises (SOEs) often benefit from tremendous scale and subsidies. They have dramatically moved up the global rankings in recent years. In 2000, Fortune's Global 500 list of the world's largest companies by revenue included 10 Chinese firms, of which 9 were state-owned. [6] In 2017, the list included 107 Chinese firms, of which 75 were state-owned. This trend is especially stark in the construction industry. In 2017, seven of the ten largest construction companies in the world, by revenue, were Chinese.[7] When Chinese SOEs compete for foreign contracts, they bring these advantages to the table.

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[6] "The changing headquarters landscape for Fortune Global 500 companies," Ernst & Young LLP, October 31, 2017. https://taxnews.ey.com/news/2017-1810-the-changing-headquarters-landscape-for-fortune-global-500-companies

[7] "Top 250 Global Contractors," Engineering News-Record, August 2017. https://www.enr.com/toplists/2017-Top-250-Global-Contractors-1

Credit is a powerful incentive. According to researchers at William and Mary, Chinese lending during 2000-2014 totaled $354.4 billion, with lending highest in the transport and power sectors.[8] Of these loans, about three quarters had commercial terms. China is successful at locking in higher rates because it agrees to assume risks that other lenders will not. In Sri Lanka, which I visited earlier this month, China was willing to provide a $1.3 billion loan for a new port after MDBs declined. After Sri Lanka could not repay the interest on its debt, China agreed to take equity in the port. China is also proactive, offering to pursue projects without solicitation. Its loans to Sri Lanka now exceed $8 billion, a sum that grew as leaders found each project too tempting to turn down.[9]

Infrastructure projects have short and long-term implications for Chinese exports. In the short term, these projects are aiding Chinese exports of construction-related goods. Chinese exports to Pakistan, for example, increased 77 percent between 2012 and 2015.[10] Chinese producers of steel, concrete, and other construction materials stand to benefit from projects that use them, as do Chinese engineering and construction firms. These activities provide important but modest relief for Chinese overcapacity, a problem that will still need to be addressed even if the BRI's ambitious spending targets are reached. Despite the BRI's scale, it is too small to solve China's overcapacity challenges.[11]

Over the longer term, new infrastructure could facilitate trade by improving connectivity between China and its trading partners. The actual impacts will depend on both macro and micro factors, such as the trajectories of the recipient economies and whether the right projects were selected. There is no question the region needs infrastructure investment. Developing Asia alone requires $26 trillion in infrastructure investment between 2017 and 2030 to maintain current growth rates and adapt to climate change, according to ADB estimates.[12] If all that infrastructure appeared tomorrow, flawlessly built where markets required it, there would be large trade gains. But many barriers to trade would still remain, from onerous customs paperwork to divergent standards. Upgrading Asia's "soft" infrastructure will be important as well.

Trade agreements could provide that upgrade, and they have been placed under the BRI banner as well. Chinese officials have described a network of free trade agreements that would support the BRI, but to date, China appears primarily focused on bilateral trade deals.[13] Given the diverse list of countries participating in the BRI, a BRI-wide trade agreement is highly unlikely. While lowering barriers between China and individual markets, additional bilateral deals could further

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[8] AidData. 2017. Global Chinese Official Finance Dataset, Version 1.0. http://aiddata.org/data/chinese-global-official-finance-dataset

[9] Kai Schultz, "Sri Lanka, Struggling With Debt, Hands a Major Port to China," *New York Times*, December 12, 2017. https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html?_r=0

[10] Henny Sender and Kiran Stacey, "China takes 'project of the century' to Pakistan," *Financial Times*, May 17, 2017. https://www.ft.com/content/05979e18-2fe4-11e7-9555-23ef563ecf9a

[11] David Dollar, "China's rise as a regional and global power: The AIIB and the 'one belt, one road'" Brookings, July 15, 2015. https://www.brookings.edu/research/chinas-rise-as-a-regional-and-global-power-the-aiib-and-the-one-belt-one-road/

[12] Rana Hasan, et al. "Meeting Asia's Infrastructure Needs," Asian Development Bank, February 2017. https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates

[13] Jonathan Hillman, "Belt and Road Summit: Beijing's Push on Trade," *The Cipher Brief*, May 2, 2017. https://www.thecipherbrief.com/belt-and-road-summit-beijings-push-on-trade-2

complicate a web of rules that firms struggle to navigate, as could the 130 transportation agreements that China says it has concluded with BRI participants.[14] Neither of these efforts has the trade-promoting potential of a high-standard regional agreement or a truly multilateral effort.

Equally important is how China brings these tools together. China's approach is centralized yet flexible. It is centralized in bringing together many of the above elements in a single deal. When a recipient country considers an offer from China, it often interacts with all the key actors, who often present a unified front. This differs from the "Western approach," which involves dealing separately with a wider range of actors, including some who coordinate loosely, others that operate independently, and others that actively compete with each other.[15]

China's approach is flexible in at least three respects. First, China is willing to work with any government. While this approach predates the BRI, it can be seen in the list of BRI participants, which even includes participants with active conflicts, such as Syria and Yemen.[16] Second, China is often willing to build to budget and with less stringent requirements for meeting social and environmental safeguards. Third, China is flexible in negotiating payment terms. It is willing to accept natural resources, for example, and when loans cannot be repaid it is sometimes willing to take equity. Centralization and flexibility provide more ways to get to "yes," and they help get there faster.

All these tools magnify short-term incentives for starting projects, but they can also mask long-term risks.

Access and Influence: Economic and Political Impacts

The economic and political impacts of the BRI are difficult to isolate and could even have opposing short and long-term implications. As noted earlier, the BRI is more a brand than a master plan with specific criteria for project inclusion. Temporally, functionally, and geographically, what counts as a BRI project is open to interpretation. Even obvious cases can have complicating factors. For example, there is a lag between the announcement of infrastructure projects, construction, completion, and usage. The economic impact of a recently-completed railway project, for example, will not become clear for several years. This is a frustrating answer, particularly for a hearing with a title that reminds us that the BRI's fifth anniversary is later this year. Consistent, long-term monitoring of BRI-related activities will be important for finding more exact answers.

Chinese government statements about the BRI's economic impacts help illustrate these challenges. Chinese officials and state media often frame the BRI's impacts in broad terms. It is common to hear about trade, investment, tourism, and other flows between China and "BRI

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[14] "China signs over 130 transport pacts with Belt and Road countries," CGTN, April 21, 2017. http://www.scio.gov.cn/31773/35507/35520/Document/1549108/1549108.htm

[15] For more research on differences between Western and Chinese approaches to infrastructure, see: CSIS and Stanford Global Projects Center, "Constructing a New Global Order," December 18, 2017. https://www.csis.org/events/western-and-chinese-infrastructure-development-abroad

[16] Jonathan Hillman, "Will China's Belt and Road stretch further?" *Nikkei Asian Review*, December 26, 2017. https://asia.nikkei.com/Viewpoints/Jonathan-Hillman/Will-China-s-Belt-and-Road-stretch-further

partners" or "BRI countries."[17] Some studies have claimed the BRI is greatly enhancing these connections. But they use questionable timelines, often relying on data that predates the BRI, and do not separate recent developments from economic trends that were underway before the BRI. Other popular metrics are often incomplete. For example, Chinese state media trumpet the increase in freight train services between China and Europe. But they do not state the value of cargo carried, and they rarely refer to trains traveling in the opposite direction, which occur less frequently and carry more empty containers.

With these challenges in mind, there are some nascent trends that merit further observation. First, Chinese outbound capital restrictions appear to be more relaxed for BRI-related transactions. Deals that might be classified as advancing the BRI are more likely to be approved, and to be approved faster.[18] In contrast, China has been reining in outbound deals for foreign real estate, entertainment, and sports teams.[19] Third, the BRI's emphasis on infrastructure has helped boost Chinese exports of construction-related goods and services. The longer-term trajectories of these trends, whether outbound capital is invested effectively and transportation corridors mature into economic corridors, hinge on implementation.

Politically, China is already benefitting from the BRI with individual countries and globally. Traditional partners like Pakistan, where BRI-related investments total roughly $62 billion, have become even closer. Chinese infrastructure loans have helped persuade some countries, including the Philippines and Cambodia, to reevaluate military or diplomatic ties with the United States. China is also forging ties with countries further west, particularly those in Central and Eastern Europe. China's "16+1" framework brings together a diverse set of countries in the region, many of whom have little in common other than their interest in doing business with China. These and other developments suggest the BRI is producing political dividends.

Globally, the BRI positions China as the leader of a new form of globalization. Much of this rhetoric sounds familiar, but carries a different meaning. For example, in his opening remarks at the BRI Forum in May 2017, Chinese President Xi Jinping spoke about upholding the multilateral trading system, liberalizing investment, and promoting transparent rules. "We should build an open platform of cooperation," he urged, "and uphold and grow an open world economy." But the BRI's openness is questionable, as evident in the contractor trends noted earlier. Yet other countries are beginning to echo this rhetoric. Several have announced their intentions to "link" their national development plans and broader economic initiatives with the BRI.

Economically and politically, the BRI also faces near-term constraints and longer-term challenges. When smaller economies do business with China, they are often balancing rather

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[17] In addition to their analytical shortcomings, these framings should also be avoided because they carry negative political connotations. Terms like "BRI country" subtly subvert each country's independence to China.

[18] Drazen Jorgic, "In Pakistan, China presses built-in advantage for 'Silk Road' contracts," *Reuters*, June 13, 2017. https://www.reuters.com/article/us-china-silkroad-pakistan-insight/in-pakistan-china-presses-built-in-advantage-for-silk-road-contracts-idUSKBN19503Y

[19] Dominique Fong and Esther Fung, "Chinese Property Shopping Spree Fades as Beijing Hits the Brakes," *Wall Street Journal*, October 31, 2017. https://www.wsj.com/articles/chinese-property-shopping-spree-fades-as-beijing-hits-the-brakes-1509454804?mg=prod/accounts-wsj

than directly aligning themselves. Dependencies can develop over time, of course, as Sri Lanka's experience illustrates. But smaller countries also seek to diversify their economic relationships. In 2016, for example, every leader that took office in Southeast Asia discussed infrastructure projects with both China and Japan. "This is a good competition," Indonesia's Finance Minister Sri Mulyani Indrawati said last year.[20] A key question for the longer term is whether this competition fosters a race to the top in standards and quality, or a race to the bottom.

Not all the BRI's political impacts have been positive. For some countries that have signed on, there is a gap emerging between expectations and actual benefits. South Korea has embraced the initiative, for example, but it has yet to cooperate with China on concrete projects. Economic cooperation has been held up by differences over North Korea, highlighting how the BRI can quickly take a backseat to other interests.[21] The BRI has been met with various degrees of skepticism and concern elsewhere, such as Western Europe, Japan, and India. The BRI's roster may seem long at roughly 70 participants, but that still leaves about 125 countries that have not joined. Ultimately, the BRI's longer-term political impacts hinge on its execution and its economic performance.

Over time, support for the BRI could decline and even turn against China. Large infrastructure projects are rarely delivered on time, on budget, with their promised benefits—even in the best businesses environments.[22] Most BRI-related projects will encounter difficulties in the coming years. Projects that rely too heavily on Chinese labor, rather than local labor, can stoke resentment. Some projects will fail outright. Others will creep along and succeed only partially – delivering some commercial benefits, for example, while also introducing environmental costs. When projects disappoint for any reason, China stands to suffer reputational damage. What looks like boldness today might look like hubris in two decades.

The BRI is also constrained by China's domestic political imperatives. The BRI aims to increase the flow of goods and people, but China's overbearing security presence near border areas is suffocating commercial activity. Chinese capital controls, while favoring outbound investment for BRI-related projects, are still inefficient and overly restrictive for inbound investments. The BRI aspires to promote the exchange of ideas and knowledge, but Chinese censorship is increasing. These trends all contradict the BRI's expressed goal of improving global connectivity. Beijing's dilemma is that greater connectivity requires giving up some control.

Winning Business and Shaping Systems: U.S. Economic Interests

Whether the BRI succeeds or fails, its vast scale and scope guarantees consequences for U.S. interests. The United States has a range of economic interests at stake, from immediate commercial opportunities to ensuring the viability and stability of major global systems in the

[20] Shotaro Tani, "Indonesia minister: Japan, China rivalry good for Asian infrastructure," *Nikkei Asian Review*, May 5, 2017. https://asia.nikkei.com/Politics-Economy/International-Relations/Indonesia-minister-Japan-China-rivalry-good-for-Asian-infrastructure

[21] Jonathan Hillman, "South Korea bids to close rift with China," *Nikkei Asian Review*, December 13, 2017. https://asia.nikkei.com/Viewpoints/Jonathan-Hillman/South-Korea-bids-to-close-rift-with-China

[22] Bent Flyvbjerg, 2017, ed., *The Oxford Handbook of Megaproject Management*, Oxford University Press, Chapter 1, pp. 1-18. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2742088

longer term. Commercial opportunities should exist for U.S. suppliers, service providers, and investors to participate in BRI-related projects. To date, U.S. suppliers that have participated have often done so through joint-ventures with Chinese firms. There are also opportunities for U.S. logistics firms and other potential users of completed projects. Hewlett-Packard, for example, was an early pioneer of the direct China-Europe freight trains that are now expanding. To date, however, U.S. and Western firm participation in BRI-related projects has been relatively modest.

At least three barriers stand between U.S. companies and BRI-related projects. First, companies need access to timely and accurate information about BRI-related opportunities. Many U.S. companies are now aware of the BRI's potential scale and wide range of activities, but they are struggling to identify concrete business opportunities. As noted earlier, one of the nascent trends in the CSIS Reconnecting Asia database is that public information about some Chinese-funded projects is more difficult to obtain in the project's earliest stages, which is typically when bids are solicited. Greater transparency would help.

Second, after learning about specific opportunities, U.S. companies sometimes confront an uneven playing field. Many of the tools for advancing the BRI noted earlier give Chinese firms an edge in winning contracts. National champions benefit from state subsidies. Financing can be tied to picking Chinese firms. As noted earlier, the low participation of U.S. contractors in Chinese-funded transportation projects is not a challenge unique to U.S. firms but affects non-Chinese firms more generally. Different methods for estimating project costs and revenues can also favor Chinese firms. These considerations extend beyond U.S. competitiveness and also impact recipient countries, which risk entering commitments without fully accounting for operations, maintenance, and other lifecycle costs.

Third, even if competition is open and fair, a host of risks can outweigh the potential rewards for U.S. firms. Partnering with foreign firms can present IP-theft risks. Elections, corruption, complicated land rights, and other political and legal risks can threaten a project's viability. Funding risks arise from the capital-intensive nature of infrastructure projects, long repayment schedules, and the challenges that developing economies might encounter along the way.[23] When projects are completed, weak demand and other operational challenges remain. These risks are a primary reason why U.S. institutional investors, such as pension funds and insurance companies, rarely venture into emerging market infrastructure.

Even more important to U.S. economic interests is the BRI's longer-term impact on major global systems. Since World War II, the United States has played a leading role in creating, expanding, and defending open trade and financial systems. The United States has done this not merely out of goodwill, but also out of self-interest. U.S. economic strength flows from the dynamism of its private sector and the U.S. economy's central position within these systems. Of course, globalization has also produced costs at home, a critical challenge that must be addressed but is outside the scope of this hearing. But as foreign markets have grown over the past seven-plus decades, so has the United States.

[23] David Wijeratne, et al. "Repaving the ancient Silk Roads," PricewaterhouseCoopers, May 2017. https://www.pwc.com/gx/en/growth-markets-centre/assets/pdf/pwc-gmc-repaving-the-ancient-silk-routes-web.pdf

A BRI that succeeds on China's terms could revise these systems to reflect Chinese interests. Changes would be seen in supply chains for goods, from manufactured products to energy and other resources. China's currency would become more widely used. Chinese technical standards, for everything from high-speed railway systems to wireless networks, would become more widely adopted, as would Chinese preferences for environmental and social safeguards. Collectively, these changes would push the United States away from its current position in the global economy and move China toward the center.

A BRI that fails also has implications for U.S. economic interests. The financial burden that developing economies are assuming through Chinese loans is considerable. Many recipients are counting on sustaining high GDP growth to pay back their loans, setting ambitious targets that leave little room for error or unexpected events. Many of today's assumptions about China are also based on its spectacular rates of growth over recent decades. Events within or outside China could lead to enough of these loans failing as to impact the broader global economy. Rather than helping write the next chapter in regional integration, a failing BRI could set the region back, harming global growth.

These economic developments carry strategic implications as well. A separate panel will address strategic concerns in greater detail, but two areas are intimately tied with the BRI's infrastructure focus and should be briefly noted. First, transportation infrastructure is dual-use, meaning that it can be used to move goods to market as well as militaries to battle. Second and more broadly, the United States has the same fundamental interest it has had since World War II in ensuring that no single power dominates the Eurasian supercontinent. If a hegemon does emerge, history suggests that new infrastructure will be an important indicator and vehicle for influence.

Recommendations

The United States must not only be vigilant, it must advance a vision of its own for the region. It is sobering to recall the U.S. position in Asia at the beginning of this century. In 2000, a bipartisan commission at the Harvard Kennedy School examined U.S. national interests and noted, "No country in East Asia, including China, appears capable of seriously challenging US leadership any time soon unless America, through neglect or indifference, were to create a vacuum."[24] Today, the U.S. position in Asia is considerably weaker. Neglect can be seen in the U.S. decision to withdraw from the Trans-Pacific Partnership. Indifference can be seen in the absence of a positive U.S. economic vision for the region.

The Administration's support for a "free and open Indo-Pacific" is a welcome development. Featured prominently in both the U.S. National Security Strategy and National Defense Strategy, this framing has several strengths. It focuses on what is likely to be the main arena for great power competition, economically and strategically, in the twenty-first century. It emphasizes the maritime domain, which despite the BRI's ambitions to create new economic corridors across the

[24] Graham Allison, et al. "America's National Interests: A Report from The Commission on America's National Interests," Harvard Kennedy School, July 2000. https://www.belfercenter.org/publication/americas-national-interests-report-commission-americas-national-interests-2000

Eurasian landmass, will remain the primary conduit for global trade. It positions the U.S. to work closely with allies and partners in the region, many of whom have expressed similar aspirations.

But more must be done to operationalize these ideas. Resources matter more than rhetoric. For example, it is necessary but not sufficient to warn recipient countries against risky lending and questionable projects. Put yourself in the shoes of a foreign leader seeking international support for infrastructure projects. On the one hand, you have offers for specific projects that could start immediately. On the other hand, you have warnings about medium and long-term risks. Politically and psychologically, the scales are tilted toward taking the risky offer today. Even the strongest language is not likely to persuade recipient countries to turn down risky infrastructure offers, particularly those with acute development needs. What's needed are better alternatives.

Working with the Administration, Congress has an important role to play in operationalizing the "Indo-Pacific" concept and expanding the availability of better financing alternatives. First, Congress should direct the Administration to establish standards and principles for infrastructure investment in the region. There is growing recognition about the importance of "quality infrastructure," but there are competing definitions for what quality means. The challenge is not only building consensus about preferred outcomes, but also the processes that lead to better outcomes. These standards would cover procurement, environmental and social safeguards, and debt sustainability, among other issues.

Second, to build international support for these principles, Congress should preserve U.S. influence in the World Bank, Asian Development Bank, and other multilateral development banks. China alone cannot meet Asia's infrastructure needs, and these institutions will remain central in setting standards and providing alternatives. The Administration can also build support by working with partners and allies and through the G-20 and other multilateral bodies. Done correctly, these principles will take hold not only in Asia, but in other regions where competing approaches exist, such as Eastern and Central Europe.

Third, to help U.S. companies compete overseas, Congress should strengthen the U.S. foreign economic policy toolkit. Concerns about the Export-Import Bank and Overseas Private Investment Corporation crowding out private sector investment, while grounded in economic theory, are at odds with economic reality. Foreign governments have already tilted the playing field. There is merit in considering whether some U.S. commercial agencies could be consolidated and streamlined for greater efficiency and unity of action, but the bottom line is that their activities should be fully resourced, as should the U.S. Department of State.

To be sure, the United States should not aspire to replicate the BRI's scale with federal spending. But through resourcing the efforts mentioned above, the U.S. and its partners and allies can expand private sector investment. Globally, institutional investors—such as pension funds, mutual funds, insurance companies, and others such as sovereign wealth funds—manage more than $100 trillion.[25] Only a small fraction of that largess is invested in infrastructure. The actions

[25] Rabah Arezki, et al. "From Global Savings Glut to Financing Infrastructure: The Advent of Investment Platforms," International Monetary Fund, February 2016.
https://www.imf.org/external/pubs/ft/wp/2016/wp1618.pdf

recommended above would help manage risks, expand the pool of bankable projects, and mobilize more private capital.

The BRI has all the marks of a difficult foreign policy challenge. It is a slow-moving development that will unfold in decades rather than days. It is functionally and geographically vast, spanning the responsibilities of many U.S. agencies. It requires grappling with both economics and security issues. It will be tempting to delay action and difficult to coordinate an effective response. Ultimately, the best U.S. response to the BRI is not a response at all, but a compelling U.S. economic vision, resourced strategically and sustained over time.

OPENING STATEMENT OF RANDAL PHILLIPS
MANAGING PARTNER, MINTZ GROUP

HEARING CO-CHAIR TOBIN: Thank you, Mr. Hillman.

And now Mr. Phillips, please.

MR. PHILLIPS: Thank you very much and thank you to the Commission for this opportunity to address this issue.

Similar to my fellow panelists on this, this issue is something that needs to be taken very seriously. As was mentioned, when this came out in November of 2013, it caught many people by surprise, mostly the Chinese bureaucracy and the SOE realm because this had been coming out of an internal Communist Party think tank, this idea, and it was latched on to by Xi Jinping as similar to some of his other initiatives that we have seen before and since of rejuvenating China and bigger, more ambitious programs.

It certainly has become something that is--that the bureaucracy has very much rallied around. China, which is the country that invented bureaucracy, knows how to get a program passed, and so now every agency of government, as well as state-owned enterprise, in China has their own internal Belt and Road commission internally to figure out how they can get a project passed, subsidies gained, and call it Belt and Road. So it's a very amorphous piece.

If you look at the mission statement--it's beautiful--that China has for Belt and Road Initiative, it talks a lot about win-win cooperation, which we see in a lot of other elements of China's foreign policy. This is something that on the ground in Beijing we like to say that means China wins twice, but it's--we semi-morbidly joke with our Chinese counterparts on that. But sometimes it feels that way. But it's a beautiful mission statement.

But really if you look at what drove this program for Xi Jinping to put forward, I would say there's five or six key things that need to be addressed.

First, the timing of it. It was certainly coming on the heels of the U.S. pivot to Asia, and there was genuine concern on the ground in Beijing at that time of what was this going to mean. At that time, we were talking about TPP and TTIP as trade initiatives to be sort of the economic ballast of the military pivot to Asia, and so the ground was fertile for a Chinese initiative in this regard to try to compete in a sense on that. And certainly there is the need for the infrastructure spend, as has been noted, but it also--this was going to be somewhat of an answer to that.

I'd also say that China likes, particularly Xi Jinping, his style of leadership--the U.S. has always been given, and appropriately so, a lot of credit for the Marshall Plan after World War II. That is something that has come up a number of times in discussion with Chinese officials, and so this was an idea to be even bigger than the Marshall Plan, in a sense to make that kind of impact. And that appeals to Xi Jinping's style of leadership.

Of course, it was mentioned, another factor here is China's overcapacity issue, particularly in infrastructure-related materials and industries. This is certainly a way. I think economists can argue over exactly how much they can export of that overcapacity. That's certainly one area that is appealing to China.

A third, I mentioned this with the Xi Jinping's style of leadership. This has taken the entire Chinese bureaucracy to a whole new level. Under Deng Xiaoping, they were very much following his policy guidance of "hide your capabilities and bide your time."

Xi Jinping has completely discarded that, and you saw that now memorialized in the 19th Party Congress Constitution that was just passed. This is a key part of this, along with

Made in China 2025 and the rejuvenation of the Chinese nation are key aspects of him having China stand up and, as he said in the Party Congress this year, "standing tall in the East." This is a key part of that.

One other thing, and I find this a little bit morbidly of interest because of my previous government days, every time I do a briefing on Belt and Road Initiative, at least the maritime aspect of this, I'm reminded of about 13 years ago in my old job at Langley of finding a document of the PLA's desire to build a string of pearls of bases out to various places. The Maritime Silk Road looks remarkably similar to that. So I find that to be of interest.

The fifth thing I would point out, the Belt and Road Initiative certainly fulfills a domestic need for China, particularly out in the western regions of China, in Xinjiang, Qinghai, and Tibet as well, to be able to try to build out some of the infrastructure there as key instruments heading out to Central Asia. They find that domestically quite appealing.

And then I think you can't look at this thing in separation from--I believe it's been noted earlier--of China's other key industrial policies, particularly Made in China 2025. These have to be seen together--Belt and Road Initiative and that--because it's a part of how China is, in their own terminology, seeking the commanding heights of key industries and certainly the soft power projection to be able to build on their objectives of again having China be predominant, certainly in the region and a region that they consider critical to themselves.

I would just add one or two other things. I think that you have to look at, you know, how is this thing going to work or will it work? As Jonathan pointed out a minute ago, I think there's some real risks in here. Certainly you're seeing a bit of that already in Sri Lanka and Myanmar of some pushback when sovereignty or perceived national slights are at play, and there's a lot of risk in this to be able to perhaps tip over on some of these sensitivities if China doesn't play its hand right.

On the other hand, I'm reminded of Ross Perot's comment in 1992 about the "giant sucking sound" of the dollar heading down to Mexico if NAFTA is passed. There is the giant sucking sound of the renminbi heading out to many places.

And while the United States and a number of other developed countries are particularly worried, and rightfully so, about the transparency of this program, of will there be shared benefits, will it live up to the hype, will there be shared access, when you're--if you look at the number of the recipient countries on the developing countryside, they're happy to see the cash come in.

And unless there is, as Commissioner Shea mentioned, unless there is some competition from somewhere else, it's an open door. So at this point, they're happy to receive it. And if you look at--the final point I'd make on this--if you look at the Belt and Road Initiative Forum that--we called it BARF--in Beijing, again a little morbid humor--last May, to be able to get 29 foreign leaders on relatively short notice for an international forum along with several dozen ministerial level delegations to come to Beijing, that shows the power of that giant sucking sound of the renminbi.

I'll leave it there. Thank you.

PREPARED STATEMENT OF RANDAL PHILLIPS
MANAGING PARTNER, MINTZ GROUP

China's Belt and Road Initiative
Panel I: Mercantilism with Chinese Characteristics: Creating Markets and Cultivating Influence

Testimony before the U.S. – China Economic and Security Review Commission

Randal Phillips, Managing Partner for Asia, Mintz Group
January 25, 2018

In the fall of 2013, Chinese President Xi Jinping put forward the strategic conception of building the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road," known shortly as the "One Belt and One Road" (OBOR) initiatives. Interestingly, this initiative when announced was very much a top down exercise, an idea that caught Xi's eye from within policy research elements of the Chinese Communist Party (CCP) and put forth with relatively little input from below. Much of the Chinese government bureaucracy that would have to support it found themselves having to scramble to figure out exactly what Xi meant by this, and what the scale and scope of effort needed would be to support it. Given the direct linkage to Xi as a signature policy, the Chinese bureaucracy proceeded to rally quickly to flesh this out and it has subsequently become a cause too big to fail in the Chinese system.

China's official mission statement for OBOR is: "The idea carries forward the spirit of the ancient Silk Road that was based on mutual trust, equality and mutual benefits, inclusiveness and mutual learning, and win-win cooperation. It also conforms to the 21st century norms of promoting peace, development, cooperation and adopting a win-win strategy for all. The conception organically links the "Chinese dream" to the "Global dream" and has far-reaching strategic significance with a global impact."

As mission statements go, that does a great job of capturing all the catch phrases of recent propaganda efforts by the CCP under Xi's leadership, but doesn't capture fully the motivations behind this effort. There are several drivers of this policy that must be fully appreciated to understand why this is of such import to the Chinese leadership. These include:

1. At the time of the announcement of the OBOR policy, China was wrestling with its desired response to the U.S. "rebalance to Asia," and in particular its economic component the Trans Pacific Partnership (TPP). Taken together with the effort by the Obama administration to pursue a similar free trade initiative with Europe (TTIP), China saw the need to present alternative rules and regimes for the future. The relatively vacant space of infrastructure spending provided a ready-made and relatively benign path to do so.
2. The Chinese leadership under Xi Jinping has recognized the need to deal with "supply side" issues of overcapacity, as well as excess foreign

exchange reserves, and an initiative such as this provides a channel to address these issues to China's benefit.

3. A central issue to Xi Jinping is the "rejuvenation of the Chinese nation," which essentially means having China play a much more active and central role in world affairs than that which had been pursued previously under Deng Xiaoping's dictum to hide capabilities and bide time. Xi sees OBOR as an ideal political and economic platform on which to boost China's international position and image, something greater in scope and ambition to the U.S. Marshall Plan after World War II and hard to oppose on the face of the policy given the infrastructure demand in the regions involved. The lack of specific target dates for completion of any initiatives also allows the Chinese leadership to declare success as it sees fit and not be bound to any hard deadlines.
4. The maritime "road" portion of the plan firmly plays to China's desire to build the infrastructure and capacity to diversify its energy supplies and reduce the risk of being "strangled" in the Straits of Malacca in a conflict situation. This matches concerns reflected in internal People's Liberation Army (PLA) planning documents dating back over a decade looking to promote energy transmission routes through Burma, potentially building a canal through the Carat Isthmus in Thailand, and ports in Pakistan, Sri Lanka and beyond.
5. It remains a high priority of the Chinese leadership to more fully develop the western regions of China, for economic as well as domestic stability reasons. This means that Xinjiang, Qinghai, Ningxia and Yunnan are likely to receive a disproportionate amount of funding and attention in the lifespan of this initiative, something certainly welcome to those regions but also a driver for major foreign and domestic investment decisions.
6. Finally, and perhaps most importantly, the ramifications of OBOR must be assessed together with China's massive industrial policy initiative "Made in China 2025." Launched in 2015, this policy seeks to make China the world leader in 10 critical categories of the economy that are on the cutting edge of 21st century industries. In that regard, China has launched the equivalent of 10 Manhattan Project-style initiatives to "gain the commanding heights" in these sectors, driving large scale investment decisions and setting clear market access restrictions. Just the scale of the effort, let alone the degree to which China is successful, will heavily influence world markets in key sectors and be a major player in China's economic relations worldwide.

As has been seen in increasingly glowing government and CCP pronouncements since November 2013, capped off by OBOR's enshrinement in the CCP Constitution at the 19th Party Congress in October 2017, this initiative is a centerpiece for Xi's economic and foreign policies and thus will receive the benefit of the entirety of the PRC's bureaucratic and corporate backing. It is too big to fail, and at least as long as Xi is around, it won't be allowed to fail. The front lines of support are provided by China's recently established Asian Infrastructure Investment Bank (AIIB), a thus far seemingly well functioning new multilateral institution that serves as a showpiece for China's evolving pursuit of an alternative global construct. While up and running in relatively short order, however, the AIIB's importance in financing OBOR, at least thus far, is far outshone in terms of scope by China Development Bank (CDB) and China Export-Import Bank (China Ex-Im). It's precisely the central role of these institutions that is troubling to U.S. and other foreign officials – and companies seeking to get involved - given the very limited transparency in operations they provide, and the clear role they play in advancing China's economic interests. CDB and China Ex-Im are able to act above the fray in China's bureaucracy, and continue to effectively rebuff efforts by foreign governments and entities alike to gain insight into their compliance and decision-making processes.

One must tip their hat to the country that invented bureaucracy, as China has fully harnessed its government departments, domestic state-owned enterprises, and major "private" multinationals to all recognize the benefit (and essentially the necessity) to create their own OBOR policies as a priority and pursue it accordingly. Entities are falling all over themselves to declare their support for OBOR and create units within their respective organizations to drive projects labeled as dedicated to OBOR's success and show their fealty to this policy. It's not only politically correct, but good business. That mindset has transcended to most multinational corporations, including many U.S. firms, who also go out of their way to inform their PRC interlocutors – especially SOE's - that they, too, have created OBOR teams in their entities to help guide their approach to the PRC market and beyond.

As a recent analytical assessment produced by the Conference Board stated, OBOR is clearly an ambitious platform for China to try to soak up at least a good portion of its acute industrial overcapacity and support growth for distressed state industry. It is arguably China's most audacious effort yet to try to engineer growth, and reaffirms the grip and control China's government has over major assets in the economy, as well as the socioeconomic imperative to keep them producing. It also illustrates the leadership's lack of progress, at least thus far, in migrating growth drivers away from state-financed investment toward household consumption. Finally, OBOR represents an intervention and deployment of central government funds that flies in the face of the celebrated November 2013 CCP Third Plenum promise to let markets play a decisive role in China's economy going forward.

This past year has been pivotal in trying to assess what's real and what's hype with OBOR. Many corporate executives, trade diplomats and China watchers worldwide watched in awe – well-founded skepticism but yet awestruck – as Xi Jinping addressed the World Economic Forum in January 2017 extolling the virtues of globalization, openness, connectivity and a free and fair trading order. These were people well steeped in the effects of China's highly protectionist policies at home, thus finding it amazing that they were listening to Xi's anti-protectionist rhetoric abroad and wondering if the world had been turned on its head given the positive reception he received. This is magnified by the fact that the vast majority of US and European observers involved in the region believe that China under Xi has been closing, rather than opening, doors to trade and investment, and accelerating on a path towards isolation, insulation, illiberalism and more government controls.

On the other hand, one must also look at the success China achieved with the May 2017 Belt and Road Forum on International Cooperation in Beijing, seeming to indicate that much of the global community may have a different, and more welcoming, perspective on China's vision and role in the world. The turnout speaks for itself – twenty-nine heads of state and several dozen other ministerial-level national delegations – all coming to Beijing on relatively short notice compared to the norms of international conference planning. Though the officially stated results and joint communiqué issued from the conference was not earth-shattering in significance, it would be hard to point to another gathering drawing such firepower in comparison to what Xi Jinping was able to draw to Beijing.

Somewhat akin to what U.S. presidential candidate Ross Perot famously stated in 1992 about the "giant sucking sound" of investment flows to Mexico should NAFTA pass, the enticement of RMB flows to recipient countries in the OBOR path is at least as real. While advanced economies have tended to focus on China's perceived desire to alter global norms, its paranoia about information and data flows, its lack of reciprocity in trade and investment policies, its internet firewall and increased obsession with national security – all understandable and legitimate concerns – the Belt and Road Forum attendees mostly from developing countries all demonstrated through their attendance that they are not overly concerned about any of these issues. This is music to the ears of Xi and the Chinese leadership, particularly as codified in the recent CCP 19th Party Congress official documentation that China should seek to be seen as a credible leader for 21st century globalization. In this view China is essentially offering ups its blend of state capitalism, socialist market economy, authoritarian political control, and new multilateral institutions as a new path for countries to consider and the possible backbone of a new international order. Given that most of the OBOR interested nations are highly protectionist with state-led economies in their own right, this is not a hard sell for China.

The net effect of these views is that there is an effective dividing line between developed and developing nations in their outlook on OBOR. Essentially there is a battle between those concerned over changing China's behavior on an ample number of trade, investment and governance issues, and those relatively unfazed by this and instead focused on scrambling for the cash. China is betting on the latter side winning, and is being quite transparent in its position and confident in its ascendancy. There is every reason to believe based on the record of the past five years of Xi's leadership, the priorities he ensured were endorsed at the 19th Party Congress, and the very public pronouncements being issued to "grasp the historic opportunity," that China under Xi will not liberalize in the manner that most Western audiences had hoped or expected. The good news, at least to those who are worrying about China's perceived ambitions to change the global order, is that China's actions thus far point to a more regional rather than global scope. This is certainly true in Eurasia and parts of Africa. China has laid down a marker that it is the leading driver of developmental policy in these regions, and is increasingly expecting other nations and existing multilateral institutions to acknowledge this.

So what should multinational companies expect from China's OBOR initiative?

The first thing that needs to be recognized is that OBOR does not provide a level playing field for Western MNC's to compete with Chinese firms. It is plain and simple an instrument of China's political and economic growth and manifestation of the opportunity Xi Jinping sees for China to take center stage in the world. That said, there are, and will be, quite a number of opportunities for foreign businesses to participate in the "best supporting actor" category. We are seeing this on the ground in Beijing and Shanghai among numerous U.S. multinationals that are eager to carve out opportunities. The net effect thus far, and likely for the foreseeable future, is for companies to play sub-contracting roles to leading Chinese enterprises, particularly in the services sector such as commercial insurance, consulting, logistics, technical services provision, etc. Many Chinese firms are bidding on OBOR-related contracts fully knowledgeable that they do not possess the complete expertise in house to carry out the project, but rather will have to subcontract many aspects to foreign firms, knowing that OBOR is much like an affirmative action policy to benefit Chinese enterprise in the leading roles. While this limited role for foreign enterprises is on its face distorted and a tilted playing field, a number of analysts assess that this may turn out to be a good thing given the high risk, low economic return of the vast majority of OBOR projects to date. As has been seen in so many other areas of Chinese economic policy, the rate of return is much less important that the perceived or real political and diplomatic benefits China is seeking. This is why CDB and China Ex-Im, by far the two leading financers of OBOR, are not particularly concerned in moving forward on their projects while private sector entities are taking a comparatively more cautious approach.

So will it work? Like most things, it depends on how you define success. As a political and soft power initiative, it has already proven quite beneficial to China, and is likely to continue on that path unless China unduly overplays its hand or stumbles into scenarios where host sovereignty sensitivities are tweaked. That's a very real potential outcome in such a grandiose project, but China at least to date has gone to great lengths to try to ameliorate these risks. The financing and economic return aspects of OBOR are likely to be the most challenging, and even with China's very large foreign exchange reserves and firm political commitment its hard to see China being able to bear the brunt of this financing any more than a decade out, if even close to that amount of time. The policy is directly tied to Xi Jinping personally, and since he's now enshrined to be China's paramount leader barring upheaval until he goes off to meet Marx, there is every reason to believe that the PRC will do everything possible to sustain this policy.

PANEL I QUESTION AND ANSWER

HEARING CO-CHAIR TOBIN: Thank you very much.

And now I know we each have a number of questions, and Commissioner Shea, why don't you start off?

HEARING CO-CHAIR SHEA: Well, thank you to all three of you. Very, very interesting testimony.

I want to just begin with Ms. Rolland. I want to congratulate you on your book. It's really brilliant and highly readable, which I particularly appreciate. So it's really good.

But you asked a question in the title of your book, and I want you to answer this at some point today. You say it's called "China's Eurasian Century," and then you put question mark. So I want you to answer that question mark at some point during your testimony.

But my question is about--I think Mr. Phillips and Mr. Hillman also alluded to this--that there's sort of a lockstep mentality in China about Belt and Road. My experience is if you want to get money in China, if you're a think tank, you put the words "Belt and Road" on a project, and you get support.

I'm wondering could you tell me what is the level of domestic criticism or domestic concern within China? If everybody is speaking in one voice 100 percent, that's not necessarily a good thing. I mean sometimes a little criticism leads to improvement. Maybe we have too much criticism here in Washington and not enough improvement.

But in a system where everybody is walking in lockstep, it could lead to disastrous results. So I was wondering if anybody could sort of tell me are there voices within the Chinese system that express reservations about Belt and Road or at least aspects of it? Anyone?

MR. PHILLIPS: I'd be glad to make a few comments on that.

HEARING CO-CHAIR SHEA: Sure.

MR. PHILLIPS: Not yet or not, none that we have seen as of yet. And I would say it's early days as I think you mentioned earlier. Certainly you look at the SOEs and actually many private sector companies in China, they've all put together for the reasons you pointed out their own Belt and Road committees.

Certainly in the early days of the Belt and Road Initiative when everybody was trying to figure out what this all was, you saw, particularly in Southeast Asia, a lot of the projects that were already underway or already investments anticipated being repurposed and called Belt and Road Initiative, and as particularly state-owned enterprises went back for more funding or went to the China Development Bank or to Ex-Im, China Ex-Im Bank, it would be very useful to call it Belt and Road to be able to apply for those funds.

I think if you just look at the total amount of actual executed funding so far for Belt and Road Initiative, it's fairly, it's less than what was originally thought was going to be at this point, but it's still early days on it. So I think at this point it's still very useful to a lot of the companies.

Internally, in the Party, they haven't really spent that much money on this yet. But even with China's significant foreign exchange reserves and capabilities, with the other problems they're dealing with right now, if, depending on how the pace of these projects being executed, those voices could raise in the coming few years if some other economic priorities start pressing.

HEARING CO-CHAIR SHEA: Ms. Rolland.

MS. ROLLAND: I think the voices of reservations are not publicly available, but if you're talking with people, they might--some of them might have some reservations and think that maybe it's a bit too early for China to go out like this, and I think that some scholars have said that there might be a risk of overstretch for China. These are difficult countries that they're going to invest in, and so what kind of economic return are they going to get?

And all the problems that we can see here, they can see them too, you know, problems with conflicts and not great economic returns and so on and so forth. So, but the center has given the directions, and now they have to fulfil the vision and try to find ways to make it happen knowing that it's not going to be easy.

About "China's Eurasian Century?" I think it depends on us whether it's going to be a period or a question mark. The title comes from, I think, as you could imagine, the balance with the Pacific century, and how maybe I think that China's dream is to re-become the central power over Asia and Eurasia. This is what the China Dream is all about.

And so if it's going to extend its influence over this continent, it might become Eurasian, its Eurasian century, and the Pacific century might become a thing of the past. I don't read in crystal balls. I'm just saying--

HEARING CO-CHAIR SHEA: Okay. All right.

MS. ROLLAND: --this is what they're trying to achieve.

HEARING CO-CHAIR SHEA: But your point is that it's up to us as to--

MS. ROLLAND: Absolutely. That's my, that's my thinking, yes.

HEARING CO-CHAIR SHEA: Okay. Thank you.

HEARING CO-CHAIR TOBIN: Let me jump in on that. Through the course of preparation for this hearing, I have been thinking continuously about risk management and when everything is this gigantic, be it a Marshall Plan or a moon shot, from the way we Westerners think of it, there is risk management going on heavily.

In China, I know their mindset is different, but--and you all keep saying we're at the early stage; we're at the early stage. How are they going to from the Chinese mentality approach this huge vision of theirs? And I want to get concrete on risk management. How is it being done in the local company level?

And maybe, Randy, you could, since you've been on the ground there out in different provinces a lot, you could start off with that, but I'd like to hear from each of you.

MR. PHILLIPS: Thank you. Chairman Tobin, thank you very much.

And I mentioned, as Chairman Shea noted earlier, with the example of Pakistan and the dangers there for Chinese workers or others, that situation is playing out in Africa and other locations where the Belt and Road Initiative projects are already underway.

And I can tell you from a concrete sense what I've seen on the ground now for a couple of years. Previously there wasn't much of an industry in China of think of it like Blackwater-type
company to be able to provide security for Chinese companies abroad.

Now there's a vibrant industry there, and there's been a lot of interest and interaction from Chinese officials, as well as state-owned enterprises and the private sector, in the last couple years reaching out to U.S. and others around the world to try to develop that expertise, realizing that as they project their investments out into more hostile environments, they're going to have to protect their workers.

And then it also plays out on the PLA side of capabilities to perhaps have to evacuate and deal with those type of contingencies. So there is avid debate as well as active things going on on the ground in China to try to develop these capabilities to be able to help their industries.

HEARING CO-CHAIR TOBIN: Thank you.

Mr. Hillman.

MR. HILLMAN: So with some of the infrastructure projects we track, I think one of the big contrasts between the Western approach is that a lot of the risk management is done up front before a project is started, and so that's often why it can be slower to start. There are studies that are done. You know, the China model is often faster and let's deal with the risks as they come up as we encounter them in the projects.

But I also think that, you know, more broadly a lot of our thinking sometimes about how China is executing these projects is probably three or so years out of date because I do think that there's learning that occurs. You know they're not immune to criticism. Criticism that's happened in Africa, I think, has impacted how they operate in Central Asia.

I think that there's a willingness to try to hire more local labor because of the political risk if you don't do that. I do think that there have been instances of holding up funding because of corruption, including in Pakistan, you know, withholding funds.

HEARING CO-CHAIR TOBIN: Are you seeing them do those corrections?

MR. HILLMAN: So, yes, but I think it's also these risks differ so dramatically in all of the places that we're talking about. So, yes, you know, generally, they're challenging business environments. But the risks that you face--the security risks you face in western Pakistan is not the same that you face in Eastern Europe, and Belt and Road is so sprawling that I think it's very difficult to talk about these risks at that high level. I think it's a really sort of country-by-country framing.

HEARING CO-CHAIR TOBIN: Ms. Rolland.

MS. ROLLAND: Yes, thank you.

I would totally agree with everything that's been just said. I think for the security of the Chinese assets and citizens, China is constrained by its noninterference policy right now. So I think they're starting to think about how to get around this, and there are several ways that I can already see coming.

The first is the delocalization of the security. So you put the burden of the security of your assets and citizens on the local military and security forces like what we've seen in Pakistan. We've seen it also in Ethiopia, for example.

There is also increasingly, and Randal is right to point out to this, that private security companies--Chinese--that are very active now and getting more important.

There is an increasing security cooperation bilaterally, and also we're starting to see emerging a sort of regional security cooperation with local countries and China so maybe an emerging regional security framework really going on to tackle those risks as well.

HEARING CO-CHAIR TOBIN: Thank you.

I know we have lots of questions. Senator Talent.

COMMISSIONER TALENT: Thank you all.

I'm going to make a statement and then follow with a question. So when I look at this One Belt One Road, I'm just a poor old former public servant, you know. I'm not an economist or anything else. It looks to me like they're spending an awful lot of their money--I'm talking about the land bridges now--to build infrastructure in other countries. That's what it looks like to me.

In other words, it's almost like a colonial power building roads in its colonies except they don't have the colonies, and that didn't even work for the colonial powers really.

So what are the terms? I mean they're not going to own these assets, right? So that's the first thing. They're not going to own them so they have to get, they have to have decent terms on the loans, and the loans have to be paid, and you all have already commented on how unstable the countries are. So I'm looking at this and thinking, maybe more so than you guys are, that this is a loser for them on the land bridge stuff.

Now, Mr. Phillips, you said something about the maritime that I think is different because there, it seems to me, they could end up getting a lot of really strategically important points under their control to protect their sea lanes.

So comment on both of that. I mean is there a basis, do you think, as American policymakers consider this for distinguishing between the land bridges they're building and the Maritime Silk Road in terms of how we ought to deal with it and what the implications are for us? And how can they expect the economics of these land bridges to work? And how are they going to get enough return on the Mongolian-Russian land bridge? What kind of markets do they think they're going to get out of that to justify an investment like that?

MR. PHILLIPS: Thank you, Senator.

I would certainly defer to my fellow panelists who have--

COMMISSIONER TALENT: Yeah. I intended it for all three of you.

MR. PHILLIPS: Excellent--the nuts and bolts of individual deals in a greater depth than I probably do, but I can tell you from all of the analysts I've spoken to on the ground in China, I have yet to find one who thinks that this economically, that the returns on this are going to be favorable.

But it's not seen as an economic win, at least not yet. It could potentially turn into that, but it's much more of a soft power projection and a way to further build influence together with other major projects that China is doing with Made in China 2025 and the great rejuvenation of the nation. That's all packaged together.

Economically, more people can paint a case, just as you did, that it could be a loser or at best break even than anything else. I would say that when you look at the Maritime versus the Road, technically the Road is the Maritime, and why they did that, I'll never know, but I think a lot of people are looking geostrategically, and I would imagine some of the panels this afternoon will talk about this.

At some point or another, it's going to come up against Russia's interests in Central Asia, and that's a real friction point that I think everybody is waiting to see how that plays out.

Certainly in the sea portion, I've spent a lot of time in ASEAN doing briefings actually on this issue, starting a couple of years ago, and everybody there is very mindful, particularly the Singaporeans, of what this all means for China's projection of force.

But at the same time they also see it as an economic opportunity so they're trying to hedge each way, which is something that, of course, we're used to seeing. But I think it most definitely, as I mentioned earlier, with the PLA's wishes for a number of years now in developing plans for how they would like to be able to control supply lines and become much more of a blue water force, this fits perfectly into it.

MR. HILLMAN: So I think there is no question that the overland component of Belt and Road is the most ambitious part of what is already a very ambitious vision. And that's because for hundreds of years most commerce has traveled by the sea, right, and I don't, I personally don't think that this is going to really change that dramatically.

Something that we're looking into is the emergence of these new China-to-Europe rail services, which it seems like every month there's a new, you know, from Chinese City A to European City B service that's announced. But these are heavily subsidized routes, and the optimistic projections of them have them doubling their share of trade between China and Europe over the next decade. So doubling sounds like a lot, but it's going from 1.25 percent to 2.5 percent.

And so if you're in the air freight business, you might be worried about that eating into the business that you do. I think the maritime story remains where most of the action is, in large part because of many of the challenges that you pointed out have been shown in colonial history with building projects beyond your borders.

I think there's also, there's an American parallel too. Next year is going to be the 150th anniversary of the Transcontinental Railway, which it included shady financing. You know it led to an economic crisis. The costs in many respects far exceeded the returns, and so I think that for all of these reasons, the maritime domain is probably where the real action remains.

MS. ROLLAND: If you want to have, if you want to spread the financial risk, you ask others to help you finance those projects, and AIIB, for example, is doing just that. You are making others helping you finance those infrastructure projects because it's good for Asia. So you spread the risk among everyone else. You just, it's not just China taking the financial burden. That's one point.

If those countries can't repay their loans, then you seize their assets. You ask them to give you a 99-year lease on your port or you ask them provide oil or gas for a number of years, for example. That's another way to have some kind of economic return.

The land bridge--sorry--

COMMISSIONER TALENT: Sort of plays hell with the whole soft power thing, though, doesn't it?

MS. ROLLAND: Absolutely.

COMMISSIONER TALENT: I mean it's not really the way to gain influence, seizing assets and, you know, dictating terms. It hasn't worked all that well for us either.

MS. ROLLAND: Absolutely. Yeah, I am aware.

About the land bridge, I think we should not just focus on the railways. There are also pipelines and fiber-optic networks. I think that's also very important to follow. We have to think of it as a very comprehensive network and, you know, if you can control the Internet over that big area, you have a great advantage also. It's not just the trains going full one direction and back empty. I think there's another dimension that we tend to forget.

COMMISSIONER TALENT: Thank you. Yeah, the energy piece I should have mentioned. I get that as well. Thank you.

HEARING CO-CHAIR TOBIN: Thank you.

Commissioner Cleveland.

CHAIRMAN CLEVELAND: Good morning. I'm glad I showed up just to hear BARF.

[Laughter.]

CHAIRMAN CLEVELAND: So I think I'm going to submit questions about your pie chart, Mr. Hillman, for the record and ask for a breakdown of what you benchmarked in terms of the MDBs versus the Chinese Policy Bank investments. I'd be curious as to what's behind that.

But I don't know that that lends itself to a conversation right now other than could you--any of you--describe in terms of the commercial loans that have been characterized as key to the Chinese Policy Bank lending, what's the range on that? It's obviously not IDA terms of seven years before you have to start paying back any loan and then potential forgiveness at the end of 21. What is the nature of the commercial--what is the commercial nature of the loans, and does it vary by country; does it vary by type of project? Do you have any sort of knowledge on that? For any of you--sorry. Yeah.

MR. HILLMAN: Yeah. Thank you. So happy to provide some further detail on some of the project comparisons that we've done with multilateral development banks versus Chinese-funded projects.

I think with some of the terms I think it does vary. I think one of the differences, so about three-quarters of Chinese official finance is commercial terms. So it's going to be higher interest rates than you would get. You know, it's not concessional financing like you would get from an MDB. So I think there's a difference between the rates. They're often able to do that, though, because they're willing to go where those other lenders are not, and I think that's something we need to think about because we can criticize and illuminate the risks of pursuing risky projects, but until you provide better alternatives, I think it's very difficult to persuade someone.

I mean just put yourself in the shoes of someone considering those offers. On the one hand, you have a project that can start tomorrow that you can announce and have a groundbreaking ceremony, and, on the other hand, you have warnings about, you know, longer-term risks. And I think that we need to think more about providing some better alternatives.

CHAIRMAN CLEVELAND: Okay. Well, presumably that's one of the things one hopes that the international institutions step into that, that gap--

MR. HILLMAN: Certainly.

CHAIRMAN CLEVELAND: --where other people won't want to go. Maybe if you could provide some kind of chart that sort of shows, and when it comes to road construction, this is the kind of loan rate that they're offering over what period of time and what other terms may be related to it, and if it varies by sector, if it varies by country, I'd be curious about what we know. And it may not; it may not be much.

The second piece of this that I'm really interested in, and it was referenced in a staff memo, and I think in some of your testimony, is that this is as much an initiative about foreign policy and international security interests for China, but it is also very much about domestic drivers.

And I think it was characterized somewhere that every province has a stake in this initiative. So I'm wondering if you all could speak to what that provincial stake is? Is it anteing up money? Is it an expectation of employment? Is it skills, expertise? Kind of what is the provincial interest or commitment?

And then the other piece of it is thinking back to the last time there was an internal stimulus in China, it ended up being a tax on the provinces because they had to cough up money to cover a lot of what the domestic spending expectations were. So, again, in that context, are they, are they being asked to commit or are they seeing this an opportunity? How would you characterize the provincial piece of this?

MR. PHILLIPS: I'll just make a couple comments on this. Commissioner Cleveland, if I could return just briefly to your previous question, I just wanted to add, I know this is the point of what are the terms of the deals and sort of it harkens to a more broader issue about the transparency of the deals. I know it's a point of frustration for a number of us on the ground in Beijing to include folks at our embassy there and other embassies who have tried to look into this to understand better how their companies might compete.

There's, what we're seeing is almost a two-tier situation. On the one hand, you have AIIB, which is by all indications operating quite well and by multinational standards and China's intense work, and Jin Liqun is very well respected head of that organization. They've hired good people, and it's out there to be seen as the showpiece of this.

The problem is--

CHAIRMAN CLEVELAND: As you note, it's not competitive when you look at it dollar for dollar, as to what the--

MR. PHILLIPS: Dollar for dollar, you're absolutely right.

CHAIRMAN CLEVELAND: I mean it's relatively small in terms of what they've invested in.

MR. PHILLIPS: Exactly. But from a transparency and how they're operating--

CHAIRMAN CLEVELAND: Right.

MR. PHILLIPS: --so far so good. The problem is most of the money is coming out of China Development Bank and China Ex-Im, and it's incredibly frustrating for a lot of people on the ground to try to get insight into how these deals are being done across the board.

CHAIRMAN CLEVELAND: Maybe there's a chart that somebody could produce that shows all of the deals and whether or not there is transparency because sometimes the lack of information when it's made public is--

MR. PHILLIPS: Absolutely.

CHAIRMAN CLEVELAND: --useful. So--

MR. PHILLIPS: Yeah.

MR. HILLMAN: I think the transparency part of this is critical, and I mean it's a huge challenge for researchers, but it's a practical challenge too for people who want to participate in these projects.

So we have, on our website, we have a page for each project that we track, and there's a number of data fields on each project page. So as an experiment, one of the things we did was we basically gave each page a report card, how much information do you have, and it was a little bit surprising. We actually, the Chinese lenders and the MDBs came out all sort of in the B to B minus category.

But I think it's very difficult to know about the things that you're not aware of; right? And so a trend that we have observed is that some of the China Development Bank projects, in particular, that we have, we don't know about them when they're in their earliest stages. We know about them when they're further along, and the earlier stages is where the opportunities are to sort of become involved.

And it's also the opportunity to know what the terms are and to do your due diligence on that. So I think the transparency issue is key and hopefully something that, you know, those institutions will improve on and something we should ask them to improve on as well.

CHAIRMAN CLEVELAND: Provincial issue?

MS. ROLLAND: I'm not so familiar with the financial burden that the provinces have to take on because of that. But from the central government perspective, the idea is really to try to reduce the development gap between the coastal provinces that are more developed and the landlocked ones, some sort of prolongation of what happened around the 2000s when they started to implement the Greater Western Development Plan.

So now the idea is that instead of having development coming from the eastern shores down to the landlocked provinces, those provinces would be sandwiched between eastern coast and the entire region, and cross-border trade would also help them growing their own, their own economy and so on.

So reducing the developing gap. Those provinces have also an increasing--that's interesting--an increasing role in foreign policy as well. So, for example, Xinjiang is a dedicated province to try to develop ties with the Turkic world, so Central Asia but also Turkey.

Ningxia, which is a Muslim province, has lots of ties with the Gulf countries, for example, building on this identity of Muslim world. The southern provinces of Yunnan and Guangxi also have more dedicated ties with Southeast Asia, for example. So you can see that they are sort of specializing into building more ties with their closer neighbors, and that's also an interesting thing to follow.

HEARING CO-CHAIR TOBIN: A couple of things to say. Mr. Hillman mentioned his database, and for those of you online or in the audience, this is at the CSIS website, and it's called Reconnecting Asia; am I right?

MR. HILLMAN: Uh-huh.

HEARING CO-CHAIR TOBIN: So do take a look at that, and it sounds like you can build in even more along the lines of what our new chairman, Chairman Cleveland, is thinking. And our vice chairperson is Carolyn Bartholomew. Left me shift to hear your questions.

VICE CHAIRMAN BARTHOLOMEW: Thank you very much, and thank you to all of our witnesses both for being here today and for your service for your respective governments over the years. We think we've all benefited from that.

I just want to note that this is clearly an important issue and one we're going to keep talking about. Our ranks up here are a little depleted today. We have two people, two commissioners on the disabled list, and one whose flight was canceled first thing this morning. Otherwise we would have a more fulsome participation.

A couple of things. One is can you talk a little bit about what you think Beijing--what constitutes success for Beijing of this Belt and Road Initiative? I'll just say also while we ask you to focus on Belt and Road, it's very difficult for me to look at any of this without also thinking about China's moves in Africa and in Latin America. That it's all part of the "going out" strategy or whatever we call it. So there's a piece of it, but I have a tendency to think of these other filters. That's one thing.

Another is I know, Mr. Phillips, you talked particularly about cash, but what about the debt, the debt loads that the countries who are getting these projects are going to be facing? When we were in Hanoi a couple of years ago, you know, we heard a lot of complaint about projects already behind schedule, over budget, which meant the debt burden was going to increase, and being poorly made.

So what I'd like to think about, again, what constitutes success for Beijing in these projects, but also what are the implications for the countries who are the recipients? And we'll tie in there--Ms. Rolland, I'm glad you mentioned the fiber optics issues because, of course, there's a very real possibility that China's Great Firewall is ultimately what succeeds or essentially is extended or implemented in all of these other countries, which reduces the ability of the people in those countries to raise questions about how their leaders are dealing with China. In fact, we'll go into some of the geostrategic things that were things.

So I'm trying to look at it from both levels that, what, by 2049, what would a successful BRI look like? Even by 2025, what would it look like? And what are the implications for the countries, the challenges that they're facing? Is this just another new colonialism?

MR. PHILLIPS: No. Thank you very much for those questions, and particularly to your first point, what is success has been something in the front of my mind from the very beginning of this. I think this is such a beautiful political program that it's beyond belief. Why? Because you can define success any way you want. There's no end date; there's no target dates.

Arguably, Beijing could say today that's successful, and it is for many of the reasons we've talked about already of just the ability to bring those many, that many leaders to Beijing in May and national level delegations and have the ability for Chinese firms to have the extension and the development of soft power they already have is arguably success.

So the beauty of it is there is no end target date. There is no hard and fast objective or criteria that anybody can really lay on this to say did you meet what you said you were going to do or not because they haven't really said what they're going to do.

Now your point about the debt is I think as critical. I think it's been pointed out earlier that there are some real land mines in that and problems that some places are already experiencing. Look at Sri Lanka, for example. Just some of the projects that weren't even called Belt and Road before that are sort of that now have already caused debt issues that become political problems internally and then become a bilateral issue with China, and then it's going to depend on how China reacts to that.

Do they seize assets? Do they try to come out with more concessionary terms? I think that's, that's one of the real areas to watch as this unfolds.

MR. HILLMAN: Thank you.

So Sri Lanka was just mentioned, and I think it's a fascinating case of both some of the rewards for China even when things go wrong, and so, you know, in the southern part of Sri Lanka, which I had an opportunity to visit just a few weeks ago, there's a port at Hambantota that we're probably all familiar with that was built by Chinese contractors with Chinese financing, and then when the government couldn't pay back the loan, China took equity in the port. They now have a 99-year lease, and this is in a very strategic area of the world that's, you know, miles from some of the busiest shipping lanes.

And if you go there today, it's, you know, kind of on lockdown. It's been handed over to Chinese companies to run, but there's not a lot of economic activity there, and it's a dramatic contrast. It's like night and day between that port and the port in Colombo where there is lots of, you know, cargo vessels coming in and out.

In Hambantota, you can look into the Indian Ocean and see large vessels going by in the distance, but none of them are coming in, and I think that's not going to be great for Sri Lanka in the longer term because, you know, this was sold as a development program for an area that had been hit by a natural disaster, for an area that had been traditionally undeveloped.

And I think we also need to be careful about how we respond to this now that it has happened so there are proposals to develop yet another port in Sri Lanka on the eastern side in Trincomalee, and this is a, I mean naturally there's World War II history there, naturally a very beautiful port, and there's interest among some outside countries--Japan and India among them--in maybe developing that.

From a debt perspective, that might make the problem worse for Sri Lanka unless it's done in the right way. And so I think we need to be, we need to be careful that as this competition continues, these debt issues are handled correctly, and that we're not by trying to fix the problem adding, you know, even more, even more debt to a small economy.

MS. ROLLAND: There's a word that has come back in several of the commissioners' comments this morning. It's colonialism. I think we tend to see what China is doing through our own lenses and through our own experience. I think in Beijing's eyes, it's not about colonialism. It's about "all under heavens."

I was struck when I was doing my research about this project about how everything goes back to historical references to maybe a mythical past really, a mythical history where China was, you know, the empire was respected by its neighbors and had some diplomatic ties with the region, going also through the tributary system.

Some scholars in China and the strategic thinkers frankly refer to that past when they talk about Belt and Road. So, and people tend to be very skeptical about that. Who would want to be a vessel state to China nowadays in 21st century? How is this possible? It's a myth.

I think we're starting actually to see this already. So the Belt and Road Forum, the famous BARF, that we all like a lot, I think was a very, very symbolic of that sort of tributary system. People didn't kowtow and didn't put their head on the floor in front of Xi Jinping, but they came with gifts, MOUs, and in return for that, they got access. They got investment. They got protection.

I think this is the kind of mindset that you need to think about when you're thinking about Belt and Road. It's a different--it's a different thing that we're looking at. Again, it's foreign, but it doesn't mean that it doesn't work.

If you look also at companies, big companies that are being silenced on the fact that they cannot write Taiwan as a country on their website or whatever, that's also part of, I think, a 21st century "all under heaven" system. So I think the vision and what constitutes success for Beijing, as Randal Phillips said, it's already happening. It's already successful. People are paying attention. China's image, global image, is really enhanced.

This is a fantastic project and people are talking about it. There's no leader around the world that is not paying attention to China's proposal and starting to think about how they can get some benefit from it. Just that--just that is very important.

So in the end, I think the vision is also a reflection of China's uneasiness with the current international order. More and more the Chinese authorities are vocal about how the current order is just U.S.-led and Western-led, and it's unfair to other countries, and China needs to do more to transform it and to reform it so that China and the developing world has more say, which brings me back to the digital Silk Road and how this is going to have a geopolitical impact.

There, too, I think the physical infrastructure is just part of what Belt and Road is about. So you might have fiber optic networks around the region that are laid by Chinese companies that in itself has to be under scrutiny on our side. But it's also about the narrative that those networks project to the outside.

There's more and more media cooperation between China and Russia and Iran, et cetera, et cetera. Those civilians' skills that China has implemented inside and domestically can also be exported outside, and Commissioner Bartholomew, you said something about the Great Firewall. There is, I think, a strong possibility that those skills are going to be exported also around the region.

And this is also part of what China has been trying to enhance for itself, which is what it calls the discursive power. China needs to make its voice heard and listened to by other countries, and Belt and Road has provided China with just that. I think we're hearing China's voice more than ever before.

MR. PHILLIPS: If I could just add one piece on that. I think this is very important whether it's on the fiber optic side or any of the other industries of the Made in China 2025 industrial policy, which is basically, as you all know, ten broad categories of industry that are at the heart of 21st century economy, the economy today and tomorrow that are obviously very important to our economy.

That can't be seen in isolation from Belt and Road Initiative because if Belt and Road Initiative is even somewhat successful, it sets out the broad framework for China to further compete well and grasp the, as they call it, the commanding heights of those industries, which are going to further be detrimental to our ability to compete in those industries.

VICE CHAIRMAN BARTHOLOMEW: Just to add, both, detrimental both to our abilities to compete but also to the abilities of dissenting voices to be able to speak up and be heard.

MR. PHILLIPS: Yes.

HEARING CO-CHAIR TOBIN: Well said. Commissioner Stivers, please.

COMMISSIONER STIVERS: Thank you. Thank you all for being here today and for just excellent work you've done on this issue and, in particular, the focus that you've had on the noninfrastructure side of the Belt and Road Initiative because I would say 80 to 90 percent of the literature that's written about Belt and Road is about the infrastructure part of it.

And this other part on the high tech, the telecommunications, I think is more of a concern for the rest of the international community than the infrastructure part of it although they're both concerned. Angela Merkel just said, I think yesterday, that data is the raw material of the 21st century, and the question of who owns the data will decide in the end whether democracy, a participatory social model, and economic prosperity can be combined.

And, of course, there's major implications if, you know, the fastest growing region of the world with two-thirds of the world's people and half of the world's GDP is dominated by Huawei as the major telecommunications provider for that region and Baidu as the dominant GPS satellite for that region. And how do you compete with that?

I mean there's so much incentives provided by the Chinese government through Made in 2025 and a host of other things. You know I know we compete on infrastructure, the Japanese can, the Koreans can, the World Bank can, the Asian Development Bank can. They need more help certainly, but I see a healthy competition on infrastructure if the international community, you know, is up to it.

But on the high-tech side, can we compete? And how?

MR. PHILLIPS: I think that's an exceptionally important issue that's probably worthy of yet another hearing. I think it goes certainly on the subsidy--the cash side of this is certainly important. But also as a lot of my colleagues in Beijing would comment and have been for a number of years--standards has been something. Patent standards, the who sets the rules of the road. China has been working diligently for years now, very successfully, in using their market power, just their domestic market power, to be able to change that dynamic and force a number of companies into accepting standards that they might not otherwise have to do.

And that market power is only being expanded now with Belt and Road Initiative in a sense, but that is absolutely playing into, particularly the technology piece, of the competitiveness. And so we're often seeing now concerns about how China is coercing technology transfer as part of the ability to have market access in China. That is only going to grow with this, this process.

That is going to absolutely affect how some of our best companies are able to compete in that market and beyond and will set the stage for how they have to deal with partners elsewhere.

MR. HILLMAN: Thank you.

I also think that the standards part must be part of the solution, and I think that, you know, that's done through a number of fora, and, you know, standard setting is done both with partners and allies, but it's also done through the U.S. leadership position in multilateral institutions, and so I think it's important to sustain our leadership in those institutions, and I think it's important to also expose instances when standards are not met, and tell those stories about the consequences of adopting, you know, lower standards, the consequence of adopting lower quality instead of paying for higher quality up front.

And I do think, though, even though I mean I agree entirely about the importance of data, I think some of these standards questions, the data and the infrastructure go hand-in-hand. The infrastructure building is often a conduit through which standards are accepted and spread, and so I think that we need to, as Nadège was mentioning earlier, consider this holistically, both the data side and the infrastructure that makes the data possible.

I don't think the solution is to, you know, meet China head on with our own subsidies. We're not going to out-China China. And I think that we need to focus on what we're good at and what our companies are good at, which is providing reliable products, which is upholding standards, many of which exist and need to be enforced.

Thank you.

VICE CHAIRMAN BARTHOLOMEW: Just very--sorry, Ms. Rolland. Mr. Phillips, I just wanted you to know that we actually are having a hearing in April where the standards issue will be being brought up.

MR. PHILLIPS: Outstanding. Well done.

[Laughter.]

HEARING CO-CHAIR TOBIN: What's the date?

VICE CHAIRMAN BARTHOLOMEW: Oh, I don't know if we have a date. Do we have a date? Oh, it's March. Sorry, it's March. I was wrong. It was March 8.

COMMISSIONER STIVERS: Ms. Rolland.

MS. ROLLAND: No. I just wanted to just reinforce what has been said. I fully agree on that. I want to go a little bit beyond that and think about not just the industrial standards and all the international standards but also in terms of intellectual leadership. China has been offering tens of thousands of scholarships for students to go study in China--students from Belt and Road countries. And that's part of one of the five pillars of Belt and Road. It's about people-to-people exchanges.

And in my mind those scholarships are not just for students to come, learn Chinese, but it's also, I believe, a way to train the elites of these countries so maybe in the long run there will be a better understanding between China and those political and military elites in the region through those people-to-people exchanges and scholarships.

So when you think about standards, it's not just about industrial and high-tech standards. It's also about training future generation of leaders in the region.

COMMISSIONER STIVERS: If I can ask one more question. On the role of civil society, what we have, you know, one of the big advantages of international development best practices is that they engage with--it's supposed to at its best engage with the people more so than the government. There's always a role for both, but you don't see China doing that as much.

Their deal is with the government. They're not transparent, and the people are often an afterthought, which has gotten a lot of these projects in trouble. I think the two, you know, major openings that have happened in the region, in Sri Lanka and in Burma, have had a direct correlation to China's development projects in those two countries, and I think that correlation is significant.

So are Chinese leaders kind of understanding the role of civil society in these countries more? Are they becoming more sophisticated in that engagement part of it? Or do they just not get that part of it? Because obviously the success of their projects are going to need to have that engagement from the people who are affected or the different, or civil society in these countries in order for them to be effective. Are they making changes in the way they're addressing these projects or not so much?

MR. PHILLIPS: It's a yes and no. Yes, in that certainly the people who are whether it's in the foreign ministry or other agencies of government who are involved with this process or the key state-owned enterprises, and they're seeing it on the front end that, yes, they hear the complaints about whether it's Chinese labor for the projects or seeing benefits filter down to local society and realizing that maybe they need to have at least a perceived lighter hand.

But I'd go back to the point that was raised earlier about China just sees this process differently than we see it through our eyes coming back to the colonialist aspect of this.

They genuinely through their own internal dialogue and rhetoric and belief is that it's-- China's a great country and others are lesser countries, and it doesn't mean that they're bad. It's just that they're lesser. And that China is doing good by this and that others ought to be thankful for that, and therefore they're less concerned about the civil society piece of this than we might think.

And I'm not making that as a value judgment. It's just they don't quite see it as a heavier burden than others might see it.

MS. ROLLAND: I think that it's a trial and experiment and learning process. You know we need to remind ourselves that this is quite new for China. This is a big "going out" on steroids strategy. So yes, they've done that before in Africa, and they also came across some problems there, and I think they have learned from it.

The same as their relation with government. You know, traditionally I think that the central authorities in China tended, used to privilege their relationship with the actual government without looking or forming bonds with opposition parties or other members of the political elites.

Over the years I think China has improved this capacity to know better different actors in the countries and not just focus on the government. And similarly I think now being aware of that importance of civil society, I think they're also trying to reach out to those, to those groups in a different way.

I think there's, here it's more bottom up approach, probably coming from the SOEs themselves or the firms that are actually operating on the ground and trying to at their level figure out how to be more engaging with the local people. And I think they're trying to set up some good standards of behavior for their workers and trying to maybe employ local workers so that they can also be engaged in the project itself. So raising the benefit for the local people as well. So, yeah, learning.

COMMISSIONER STIVERS: Do you think they're doing that?

MS. ROLLAND: I think they're, I think they're trying. I think they're trying. I think, again, it's not like they're oblivious to what's going on. I think they know in different countries what happened, and they learned from it, and then I don't think they're going to repeat that mistake afterwards.

HEARING CO-CHAIR TOBIN: Let me--we have a couple more questions we can get out before this panel closes. And I think it's very important for us to hear from each of you on, as you know, our responsibility is to report to Congress with recommendations, and so we've talked about what it means for Beijing or China to be successful.

What does the United States do? What does Congress in particular do in order for us to successfully navigate, counterbalance, or what, the next 30 years?

I'd also like, Mr. Phillips, if we have time, for you to comment on what American companies should do because I know that's a particular area of expertise.

So why don't we start with Mr. Hillman. If you could hit it, you know, hit it home and tell us specifically--we have many committees here--what needs to happen here in Washington and beyond?

MR. HILLMAN: Thank you.

So I think in many ways the best response to Belt and Road is not a response at all. It's a more compelling U.S. vision and I think it's been encouraging that there's been support building for the free and open Indo-Pacific concept, but I think more needs to be done to operationalize that, and I think, you know, at the end of the day resources matter more than rhetoric.

I think there's a series of things that Congress could do to help operationalize that concept, which isn't the entirety of Belt and Road. Belt and Road goes other places. But that does seem to be the sort of central opportunity right now.

I think one thing that could be done is, you know, instructing the administration to come up with principles and standards for quality infrastructure. That term gets thrown around a lot--quality--and I think there are competing definitions for what it means, not only in terms of outcomes but even more difficult to define the necessary processes that get you to those outcomes. I think that's something that we can develop also with partners and allies.

And then again I think funding, you know, fully resourcing and maintaining the U.S. leadership position in multilateral development banks. For the U.S. commercial agencies that are involved with this, I think that there's, you know, certainly always merit in considering could we streamline some of what we do and combine functions? And I know that's a sort of longer-standing debate that many, some people have tried, and certainly merit in thinking it through.

I think at the end of the day the basic functions need to be there, and we need to support them. China has a whole host of tools that a lot of which have been mentioned today that it uses to advance the Belt and Road. I think the minimum that we can do is give our commercial, U.S. commercial agencies what they need to operate.

And I think, you know, beyond that, I think the U.S. goal should really be not to throw federal money at, you know, a Marshall Plan for Asia or something like that, but in setting these standards and building support for them. I think we can catalyze more private sector investment.

There's about, you know, $100 trillion in institutional funds that are looking for reliable long-term returns. Many of these areas are very risky, and I'm under no illusion that large chunks of that treasure chest are going to go to projects in some of the places we're talking about.

But I think more can, and I think more can by having the U.S. play a more proactive role in setting standards and managing some risks. And ultimately that gets toward providing better alternatives for the recipient countries who are considering these offers. You know, on the one hand, something that starts tomorrow. On the other hand, something that might take a little while longer, might cost a little more up-front, but will, you know, give you a better return in the longer run.

HEARING CO-CHAIR TOBIN: Ms. Rolland.

MS. ROLLAND: Yes. Thank you. I think the first step you're doing already, is bringing awareness, you know, to what's going on so that we can see what we can do. This is not a small thing. This is a very important one.

The second thing I think is keeping open the possibility of giving alternatives to these countries. China is really going out to develop mostly developing countries. And they don't really have other alternatives, and so I think the U.S. and its allies--that's the European in me that's speaking. I think this is something that we have to do together.

The U.S. itself won't, has the capacity, but I think this is really something that we have to do in cooperation with its allies in Europe but also in Asia. India and Japan have started to provide those alternatives, and I think there's a lot of things that we can, we in the U.S. can do more and better in conjunction with those initiatives, again to provide alternatives for these countries.

HEARING CO-CHAIR TOBIN: Thank you.

Mr. Phillips.

MR. PHILLIPS: Thank you.

I absolutely agree with, I think, as well, the first piece is what we're doing here today, and that is the awareness of this and have our eyes wide open. And again I can't stress enough that we can't look at any of this in isolation. Belt and Road Initiative, as ambitious and broad as it is, is also together with Made in China 2025 and other soft power projection of what China does and is trying to enhance.

I mentioned earlier about some of their ability to deal with civil society, et cetera. They're quite good in their United Front Work Department, the Party, and across the world in working with other political parties, civil organizations, to influence. That's their job in life. That's essentially what we're talking about here. They'll get better at this and do it. But this is a deadly serious program. So we have to have our eyes wide open.

The second thing, at the risk of raising a seriously dead horse here, the Trans-Pacific Partnership--

HEARING CO-CHAIR TOBIN: Yeah.

MR. PHILLIPS: --or I forget what it's called now. Justin Trudeau's new Comprehensive, it's the CPTPP.

HEARING CO-CHAIR TOBIN: Yeah.

MR. PHILLIPS: That is now apparently going to come to fruition with the other 11 countries.

HEARING CO-CHAIR TOBIN: March 8, I think.

MR. PHILLIPS: March 8. Exactly. We advocated quite heavily for this out of Beijing, and here's why. It's for this very reason. It wasn't about trade to those of us on the ground in Beijing. It was about the fundamental principle here that we've been talking around this entire hearing, and that is China's market power and its ability to throw its economic weight around to the potential detriment of the United States.

How do we compete against that? The U.S., as powerful as we are and as strong of an economy as we are, we are not the size economy as part of the whole in the world that we were after World War II. We're not going to be able to win this by throwing money at it. We're going to need allies, and we're going to need to partner with others.

And the whole benefit of TPP from our perspective was it changed that fundamental dynamic that is at the heart of all this, that China believes that you need that market more than they're worried about losing your investment. So how do you change that?

Well, you create a bigger market that China is the odd person out, and now you've got 40 percent of the world economy operating at higher standards, a different set of benefits, and suddenly there's an incentive there for China to have to at least moderate some of its behavior to be able to compete.

Now how you get from here to there, that's up to Congress and others to decide how to do, but that was the only game in town that we saw--the TPP--to be able to at least try to get us from here to there. So something has to get us from here to there. And hopefully we'll have more hearings on that.

HEARING CO-CHAIR TOBIN: So I think the question about American companies, we can hold to an offline conversation because I know Commissioner Stivers has a burning question. No, go ahead, please. We have time.

COMMISSIONER STIVERS: Sure. Yes, I have a lot of questions. But since we're talking about TPP and trade, let's get into that a little bit without getting into the trade, whether for or against it sort of thing.

One of the things, I mean you all mentioned, I think some of you mentioned that the Belt and Road Initiative was a response to the Asia pivot or the rebalance. And, you know, China's leaders were worried about that. The problem I've always seen from the rebalance is that TPP was the only significant economic component of it. And China recognizes the value of development. Asian countries, they want development probably more than trade.

And the question is we didn't have a strong enough development component, and I think of OPIC, you know, where you have a U.S. agency that can help underwrite loans and brings money back to the Treasury. It doesn't cost the U.S. government a thing, but yet it can help some of our companies make the investments and compete in the region. Again, brings back money for the Treasury, but then you have, you know, the new budget eliminates OPIC.

Hopefully, I think the administration is coming to understanding the importance of something like that. But whether it's that, whether it's our traditional foreign assistance that is so much, that is so effective, whether it's humanitarian assistance, whether it's disaster, disaster assistance, health, agriculture, we have an advantage there, and we should be focusing on those things in Asia.

But, you know, I think the development component as a response to what China is doing is an important thing to think about. Do you have any thoughts about that?

MS. ROLLAND: I just want to go back to the response to the Asia rebalancing policy. It is and it is not. The idea has been going on for quite awhile in the intellectual elites of Beijing. So--and I think the first mention of this idea, not called Belt and Road but really the components of it, the first one I saw dates back 2001. So if one thing, the Asia rebalancing policy maybe has accelerated it, but it didn't--it wasn't born out of this. That's one, one point.

I think it's also why do we see China going out so, so abruptly now? It's also in reaction I think to what they perceive as a U.S. disengagement in the world, and so they're seizing this opportunity to go out, more forcefully outside.

So if the U.S. is more willing to reestablish its credibility as a global leader, that will also have an impact on how China sees its role in the region.

For the more economic piece, I'll turn to my colleagues here who know more than I do.

MR. HILLMAN: I agree entirely that withdrawing from TPP was a missed opportunity and one that we continue to pay for. I think as broad as Belt and Road is, it still is nowhere near a replacement for what that was and could still be.

The trade component of Belt and Road is mainly bilateral deals under a large banner. So it's not, it's not, it doesn't have that larger market creation, the rule-setting component that TPP had. So I do think that that is something worth thinking about.

I think your question of foreign assistance and development is also critical. One of the things that makes Belt and Road so compelling is that it's this positive vision for countries whose number one priority is development. And so I think until the U.S. provides its own vision--it need not be framed in opposition to Belt and Road; it needs to be its own positive economic vision--I think that would be the best response.

HEARING CO-CHAIR TOBIN: Closing thought, Mr. Phillips?

MR. PHILLIPS: Thank you.

On the point for the companies that we see on the ground, it's obviously the market in China and Asia as a whole is critical to U.S. companies. Any company worth its salt is there trying to compete, and some are competing very well. Many are held back by market access restrictions and other aspects of a fairly closed system in many sectors that we've talked about a number of times before. But the Belt and Road Initiative in this regard is, I think, symptomatic of the broader issue with China.

It's how do you get access to it if you're a U.S. company to compete, and how do you learn of the opportunities? How do you partake? How do you conduct compliance activities to make sure you're doing well by your fiduciary responsibilities, et cetera? And obviously get a return on your investment, make it economically viable.

This is something that virtually all of our members in the American Chamber in China have looked at Belt and Road whether or not--similar to their Chinese counterparts--of is there something in here for us? Is there an opportunity? And they are trying to figure that out.

What we've seen thus far is it's been more on what we'd call the software side of things. Rather than the major infrastructure players getting the project through the front door, it's subcontracting for logistics, finance, consulting, et cetera, that kind of piece, and it hasn't been in large numbers yet. It's been very, very small.

But then again the overall amount of enacted Belt and Road projects really hasn't been all that great as of yet. So I think it's still to be seen how much U.S. companies are able to compete in this. But it, again, comes down to providing a framework for U.S. companies to compete effectively and have sustainability to compete going forward.

And that's where we're going to have come up with a construct in dealing with the entity that is China and the system and the market power that they are utilizing right now to be able to compete against that. And so we're going to have to have allies. We're going to have set up a cooperative framework for companies to talk to each other and to be able to know that we're pushing back as a government on issues of real concern when there's coerced technology transfer, lack of protection for IP, patents and standards issues that are problematic, and just simple reciprocal market access.

HEARING CO-CHAIR TOBIN: So we will continue this rich conversation today, and I'll have to unfortunately bring this panel to a close, and we will convene again in ten minutes for going deeper at the next topic, which is the geostrategic and the military drivers.

Thank you very much, all three of you. We could have spent half the day with you on this. Very well done. Thank you.

[Whereupon, a short recess was taken.]

PANEL II INTRODUCTION BY CO-CHAIR DENNIS C. SHEA

HEARING CO-CHAIR SHEA: Good morning. We will reconvene for our second panel. Our second panel today looks at the geostrategic and military drivers and implications of the One Belt One Road Initiative. Now we have a fantastic panel of experts, unfortunately, one of whom has that infamous flu bug. Joel Wuthnow will not be with us today unfortunately so we're left with two--but two really good ones.

We will begin with Ely Ratner. Dr. Ratner is the Maurice R. Greenberg Senior Fellow for China Studies at the Council on Foreign Relations. Prior to this position, Dr. Ratner served as the Deputy National Security Advisor to Vice President Joe Biden, covering the global portfolio with a particular focus on Asia and China policy.

Dr. Ratner will provide testimony on the geostrategic and military drivers of BRI amid intensifying strategic competition between the United States and China as Beijing's global influence grows.

We will then hear from Daniel Kliman. Dr. Kliman is a Senior Fellow in the Asia Pacific Security Program at the Center for a New American Security.

Before joining CNAS, Dr. Kliman worked in the Office of the Under Secretary of Defense for Policy where he served as Senior Advisor for Asia Integration. Dr. Kliman will provide testimony on China's efforts to expand its security presence around the Indian Ocean Rim and across Eurasia, how these efforts relate to BRI, and implications and options for the United States.

Thank you all very much for your testimony. I'm supposed to admonish you to keep your testimony to seven minutes, but since we're down to two, take your time and say what you want to say. So thank you.

We'll start with Dr. Ratner.

OPENING STATEMENT OF ELY RATNER
MAURICE R. GREENBERG SENIOR FELLOW FOR CHINA STUDIES, COUNCIL ON FOREIGN RELATIONS

DR. RATNER: Mr. Commissioner, thank you so much.

It's a great opportunity to be here today. You should never give think tankers more time to talk.

[Laughter.]

DR. RATNER: Just as a pro tip. But I'll try to be--I will try to be as close to that as I can and we can come back. I'm just going to hit the wave tops of my written testimony.

Let me just start with the contextual point of the overall trend lines, which I began my written testimony with, which I think overhangs any discussion of the Belt and Road Initiative, which is four points:

Number one, the United States and China are locked in a consequential geopolitical competition right now that will determine the character of the 21st century;

Number two, the United States is losing that competition right now and increasing the likelihood not just that the U.S.-led liberal order will be undermined, but that a China-led dominated region will emerge;

Third, the United States government has failed to approach this competition with anything approximating its seriousness to date, and I say that as a former official;

And fourth, despite that and despite current trends, the United States can arrest China's momentum here and prevent the growth of an illiberal order in Asia if we put our strategy and our resources and our attention that are deserved to this set of issues.

So I wanted to put that on the table first. I know you've spoken already about the economic drivers and imperatives of the Belt and Road Initiative. I do think those are in many ways primary, but the military and the geostrategic effects are quite significant and barely below the surface and definitely worthy of consideration.

So, again, thank you for convening this important discussion.

I'm going to talk about three things briefly. Number one, the security benefits, the advantages that China is deriving from Belt and Road. Second, the security risks that are going to emerge for China. And then finally some recommendations for U.S. policy in response.

As it relates to the benefits, I think you've already spoken about energy security, which the Chinese obviously see not just as an economic issue but as a military issue as well. The diversified trade routes for energy imports is I think the most direct and indisputable strategic benefit for the Chinese from the Belt and Road, allowing them to avoid the Malacca Straits and other choke points where U.S. and partners have significant military capability to disrupt those flows.

The second benefit potentially relates to China counterterrorism efforts insofar as at least from their perspective greater development in some of these impoverished areas may alleviate some of the drivers of terrorism, but it will also allow them to enhance their relationships with countries in South and Central Asia and the Middle East with which they will work with and through in their own counterterrorism efforts as it relates to their concerns about potential instability in Western China.

Third, overseas military access and presence. The Chinese government is actively seeking overseas bases to be rotating military forces through, and I would foresee that both the People's Liberation Army and the People's Armed Police will gain increased access in BRI recipient countries over time.

Four, BRI will feed, and you may have spoken about this earlier as well, the emergence of a more illiberal regional security order in which democracy and individual rights will be largely subservient to economic growth and social stability, and the strategic and military issues around which international or regional intervention will be occurring will be around those illiberal aims rather than the types of multilateral interventions that the United States has favored for individual rights and freedoms and otherwise, particularly since the end of the Cold War.

And then, finally, and I think this is the most important but in some ways the most amorphous, BRI will afford China greater coercive capacity over security matters. And so Belt and Road is important for security, not directly because of the military capabilities that it will afford, but rather because it will create a perception of a China-led economic order in Asia, and that has all sorts of cascading effects upon the decision-making of other countries, whether to or how far they want to partner with the United States, and how willing they are to push back against certain forms of Chinese coercion or assertiveness if doing so will face both the loss of potential rewards through BRI or economic punishment and coercion.

So I think those are the top five security benefits for China.

As it relates to risks, clearly terrorism is one that will emerge as China has greater investments and more personnel overseas. The possibility of, again, attacks against Chinese nationals or business interests will increase insofar as the types of projects that they will be funding will be highly symbolic, highly politically salient, probably politically controversial, and quite soft targets in many ways. So ripe for a terrorist threat.

Second in terms of security risks will be what I would characterize as domestic stability or--sorry--instability in recipient countries. Insofar as China has had a historical rhetorical position anyhow of not interfering in the domestic politics of other countries, if they have major $100 million investments, and if Xi Jinping's legitimacy and reputation is on the line, that's going to change very quickly.

And so the domestic political stability and social stability of the--in BRI recipient countries will become a first order priority for the Chinese, and they will start bearing the security costs of that in terms of both assisting BRI recipient countries in securing their domestic populations as well as I would suspect over time intervening directly themselves.

And then, finally, as it relates to the geostrategic issues and the risks for China, Beijing will despite its best efforts for sure be stepping into regional rivalries that it would like to avoid, and it will be doing so in two ways.

Number one--and we're already seeing this in the Pakistan-India context--China's projects will be weighing in on regional rivalries, whether it's again between Pakistan and India or between Iran and Saudi Arabia, that will be very difficult for Beijing not to feel like it's taking a side, and again that will draw it into these picking sides in a way it hasn't wanted to in the past.

And then, finally, of course, if you look at the map, BRI almost immediately starts entering areas which both Moscow and New Delhi consider parts of their sphere of influence. So perhaps Russia is slower than India, but these countries will for sure be seeing greater concerns in terms of that, that front.

Let me just take a couple more minutes then if I do have just a little bit of extra time to think about recommendations for U.S. policy and happy to come back to any of these.

The first point I would make--not a specific recommendation--would just be I would argue the United States does not need a counter-Belt and Road strategy. The United States needs a comprehensive and competitive China strategy. And so I don't think we should think about differentiating the problems and the challenges and opportunities that are associated with BRI somehow cabined from a whole set of issues associated with China's emerging influence. So I would think about it comprehensively.

But the five areas that I highlighted--and why don't I save the details on this for the question and answer--the first absolute major point, and this is based upon research that I have done over the last several years, would be that to the extent that China is growing its force projection capabilities and its footprint globally, it still remains that the most important theater in terms of the United States' ability to deter and contain that threat is in East Asia.

So that if you're worried about Chinese naval bases in Pakistan, the way you deal with that problem is by staying competitive in East Asia. Absolutely first and foremost. And the Trump administration's national defense strategy made that point in terms of the fact that we have some catching up to do there, and I would just add that the South China Sea is central to that--an area where our strategic position is slipping--and again if you're thinking about China's ability to project political and military power beyond its shores, its immediate periphery is the absolute priority where we should be focused right now.

Second, the United States should rejoin the Trans-Pacific Partnership or its latest rendition. Without an alternative put forward by the United States, that perception of China-led economic order will persist, and there won't be all the military hardware in the world to shape the decision-making of our partner countries if they see China as their economic future. So the United States needs to lead on trade and economics.

Third, I believe the Trump administration or their successor should think seriously about what I would characterize as a burden-shifting strategy. We talk about burden-sharing with countries like China. I think more actively we should be thinking about burden-shifting. In areas where the United States is overextended, where we're bearing a disproportionate level of costs and where China has emerging security interests, we should think about unilaterally drawing down and forcing them to fill that void whether that's a consensual agreement or not.

Last two points, very quickly. The United States needs to invest much more in rebuilding its information operations and broadcasting. The Broadcasting Board of Governors has done a good job of this as it relates to the Russia problem. But on the China front, and particularly as it relates to Belt and Road, which I'm sure you heard this morning, there's a lot more smoke than fire, a lot more about a brand, a lot more about a perception than an economic reality.

The degree to which the United States government can contribute to a separating fact from fiction about what Belt and Road actually is and informing the broader public in some of these countries, all the better.

And then the last thing I would add, which may have been raised this morning, is that the United States in concert with allies and partners should work toward developing capacity-building for recipient countries to be able to assess themselves the viability of some of these projects so they don't get stuck in some of these committed debt traps or otherwise that they may have known better about before.

So let me stop there and look forward to your questions. Thank you so much.

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COUNCIL on FOREIGN RELATIONS

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Geostrategic and Military Drivers and Implications of the Belt and Road Initiative

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Before the

U.S.-China Economic and Security Review Commission

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Hearing on China's Belt and Road Initiative

Context

Any discussion of Chinese foreign policy and U.S.-China relations should begin with a baseline description of the overall context and dominant trends. I would offer four topline observations.

First, the United States and China are now locked in a geopolitical competition, primarily still in Asia. How this competition evolves will determine the rules, norms, and institutions that govern international relations in the coming decades, as well as levels of peace and prosperity for the United States.

Second, the United States is losing this competition in ways that increase the likelihood not just of the crumbling of the U.S.-led order in Asia, but also the rise of a China-dominated region. If such a future in fact comes to be, the region will be less free, less open, and less inclusive than it is today. Many of America's foreign policy achievements over the last 75 years will be lost, and it will take generations (at least) to revive central elements of today's liberal international order.

Third, the U.S. government has failed to approach this competition with anything approximating its importance for the country's future. Washington remains distracted and unserious about the China challenge. The Trump administration sounded some of the right notes in its first National Security Strategy, but on balance its foreign and domestic policies do not reflect a government focused on projecting or sustaining power and leadership in Asia.

Fourth, despite current trends, the United States can arrest China's momentum and prevent the growth of an illiberal order in Asia. The foundations of American power remain strong, while China's weaknesses are mounting by the day. There is nothing inexorable about either China's rise or American decline. But neither will these trends reverse themselves without better policy and strategy in Washington.

This is the context in which we should consider the military and geostrategic considerations of China's Belt and Road Initiative (BRI). The United States does not need a counter-BRI strategy; instead, it needs a comprehensive China strategy to manage the challenges of which BRI is both a cause and symptom.

Drivers and Benefits for China

Military and geostrategic factors are largely secondary to the economic imperatives of the Belt and Road Initiative.[1] The strategy primarily serves China's efforts to transform and grow its economy amidst the hangover and slowdown of its exhausted manufacturing and investment-led model at home. Beijing hopes to find big projects and new markets for Chinese firms throughout the various belts and roads.

However, the strategic dimensions of BRI are barely below the surface. The initiative carries strategic significance in part because of what it says about Chinese Communist Party General Secretary Xi Jinping's ambitions for China's role in the world. Xi has quite explicitly retired China's moderate, cautious foreign policy and is instead pursuing greater power and leadership on the global stage.[2] In that sense, Belt and Road bears on military and security affairs because it demonstrates Xi's willingness and desire to pursue big, bold ideas that put China at the center of international politics in ways it has strongly resisted in recent decades. There is no reason to believe he will cabin these efforts to economic initiatives as China's military becomes increasingly capable of projecting power overseas.

Moreover, although strategic factors have not been primary motivators, it is still the case that the size, scope, and geography of the initiative are likely to have significant military and geopolitical effects. It will do so both directly and indirectly, and provide both advantages and risks for Beijing. The possible upshots for China include the following areas.

Energy security: Diversified trade routes for energy imports are arguably the most direct and indisputable strategic benefit to China from Belt and Road.[3] Beijing is seeking to build roads, ports, and pipelines that

[1] Nadège Rolland, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative* (Washington, DC: The National Bureau of Asian Research, 2017).

[2] Bonnie S. Glaser and Matthew P. Funaiole, "Xi Jinping's 19th Party Congress Speech Heralds Greater Assertiveness in Chinese Foreign Policy," *Center for Strategic & International Studies*, October 26, 2017, https://www.csis.org/analysis/xi-jinpings-19th-party-congress-speech-heralds-greater-assertiveness-chinese-foreign-policy.

[3] Christopher Len, "China's Maritime Silk Road and Energy Geopolitics in the Indian Ocean: Motivations and Implications for the Region," in *Asia's Energy Security and China's Belt and Road Initiative*, NBR Special Report 68. Erica Downs, Mikkal E. Herberg, Michael Kugelman, Christopher Len, and Kaho Yu (Washington, DC: The National Bureau of Asian Research, November 2017), 41-53.

can alleviate what Chinese strategists have long called the "Malacca Dilemma;" namely, vulnerabilities that result from having to ship much-needed energy imports through the South China Sea and up the east coast of China, where U.S. and other regional militaries have the capabilities to threaten or block maritime traffic. More routes that are more secure reduce the likelihood of adversaries being able to choke off China's energy sources. As a result, BRI will likely include pipelines through Russia and Central Asia, as well as deep water ports in South and Southeast Asia.

Counterterrorism: Lack of access and transparency continue to obscure the scope of China's terrorism problem in Xinjiang and surrounding provinces. Nonetheless, there have been violent incidents, which are likely to continue, if not increase, as a result of multiple trends: foreign fighters returning from Syria and Iraq; the potential for greater extremist activity in Afghanistan and Central Asia if the United States withdraws; and growing domestic discontent in western China due to the government's enhanced oppression of Uighur Muslims.[4] Chinese officials argue that economic development is an important part of any counterterrorism program. In this telling, extremism in Xinjiang and neighboring countries will abate to the extent that Belt and Road brings jobs, education, and higher standards of living.

Overseas military access and presence: China's government is actively searching for overseas bases to station and rotate military forces, and the People's Liberation Army and People's Armed Police will gain increased access in BRI countries.[5] This will occur in a variety of ways. Chinese forces will be deployed to narrowly protect high-priority projects. Host countries may also request security assistance to defend against domestic instability that could imperil vital infrastructure. Finally, in some instances, China is likely to acquire or control major transportation facilities, including ports and airports, in exchange for Chinese investment and debt forgiveness. This has already transpired in Sri Lanka and may again soon in Myanmar.[6] The PLA currently lacks the ability to sustain large numbers of troops far from mainland China. This will change over time with improvements in training, doctrine, and more access to overseas facilities. With naval access in the Indian Ocean, the PLA will eventually be able to protect and disrupt vital shipping lanes, while also basing forward submarines and anti-submarine warfare capabilities that could pose a security challenge to regional countries, particularly India.

Illiberal regional security order: If Belt and Road proceeds as China envisions, it is likely that an illiberal regional order will develop in which democracy and individual rights are largely subservient to economic growth and social stability. China has been hostile to sovereignty violations under the precepts of the liberal international order, and is already building an alternative set of rules, norms, and institutions that seek to circumscribe the ability of the international community to protect and defend individual rights against the wishes of their governments. The point here is not that external intervention will not occur—China has mostly, despite its rhetoric, already abandoned its strict policy of non-interference.[7] What it does mean is

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[4] Robbie Gramer, "The Islamic State Pledged to Attack China Next. Here's Why," *Foreign Policy*, March 1, 2017, http://foreignpolicy.com/2017/03/01/the-islamic-state-pledged-to-attack-china-next-heres-why/.

[5] Ralph Jennings, "China May Consider These Countries For Its Next Overseas Military Base," *Forbes,* October 1, 2017, https://www.forbes.com/sites/ralphjennings/2017/10/10/china-is-most-likely-to-open-future-military-bases-in-these-3-countries/#7959f7454006.

[6] Kai Schultz, "Sri Lanka, Struggling With Debt, Hands a Major Port to China," *The New York Times,* December 12, 2017, https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html?_r=0.

[7] Sherif A. Elgebeily, "How China's Foreign Policy of Non-Intervention is All About Selective Action," *South China Morning Post,* April 30, 2017, http://www.scmp.com/comment/insight-opinion/article/2091502/how-chinas-foreign-policy-non-intervention-all-about.

that intervention will occur to protect governments and projects that are important to Beijing. It is also likely that the Eurasian continent overall will become less free and more authoritarian, which is already occurring in places where China has dominant influence.

Greater coercive capacity over security matters: Belt and Road is arguably most important for security issues because it creates the perception of a China-led economic order in Asia. As Christopher Johnson at CSIS succinctly put it, BRI helps "to reinforce the emerging global narrative that China is moving to the center of global economic activity, strength, and influence."[8] This has direct implications for military issues insofar as countries will be increasingly unwilling to partner with the United States or push back on Chinese assertiveness if they believe it will result in tangible and costly forms of retribution. China is already using economic carrots and sticks to coerce U.S. allies and partners to reduce security cooperation with the United States.[9] Prominent recent examples include South Korea (over the Terminal High Altitude Area Defense missile defense system) and the Philippines (over disputes in the South China Sea). Countries as far as Greece are carrying Beijing's water on political matters in the European Union to reap what they expect to be the spoils of Belt and Road. Beijing's neutering of the Association of Southeast Asian Nations (ASEAN) over the South China Sea is exemplary of how states and collections of states are likely to defy their national security interests to bend to China's demands for economic purposes.

Security Risks for China

China will face significant, and in many ways new, security challenges as a result of Belt and Road. These include terrorism, domestic instability in partner countries, and heightened regional rivalry. China's government, even if cognizant of these risks, is not curbing its ambitions and lofty rhetoric for Belt and Road for at least three reasons. First, there is a deeply-held belief in the stabilizing effects of development, such that over time a successful BRI will resolve, or at least temper, the most acute security challenges. Second, Belt and Road is seen in Beijing as part of an overall effort to revive and transform China's struggling economy, which is tied to regime legitimacy and social stability. Third, and perhaps most importantly, Belt and Road is personally important to Xi Jinping and is now closely interlinked with his legitimacy and legacy. Chinese bureaucrats have therefore taken on an unquestioning, uncritical drive, regardless of the attendant security risks and political fallout likely to emerge. This is all to say that none of the risks discussed below are likely to weaken Beijing's enthusiasm and determination over Belt and Road in the coming years.

Terrorism: Belt and Road will likely raise the potential for acts of terrorism against Chinese nationals and business interests, both at home and abroad in BRI-recipient countries. Many of the proposed transportation and trade routes pass through areas already suffering from terrorism and insurgency. At the same time, Chinese overseas investments in the developing world have at times fueled resentment when accompanied by corruption, environmental damage, low labor standards, and few economic benefits for local populations. The political exigencies of advancing BRI projects will only increase the likelihood of non-economically viable projects that result in some combination of wasted resources, mounting debt, and abandoned efforts. This could turn and sharpen more extremist venom toward China. Two additional factors could animate these trends. First, China's own extraordinary and deepening oppression of Muslim

[8] Chris Johnson, "President Xi Jinping's Belt and Road Initiative," *Center for Strategic and International Studies*, March 2016, p. 2.
[9] Evan A. Feigenbaum, "Is Coercion the New Normal in China's Economic Statecraft?" *Carnegie Endowment for International Peace*, July 25, 2017, http://carnegieendowment.org/2017/07/25/is-coercion-new-normal-in-china-s-economic-statecraft-pub-72632.

Uighurs in western China; and second, Belt and Road infrastructure and energy projects will likely be soft targets, rich with symbolism.

Domestic instability in recipient countries: Belt and Road routes through distinctly unstable and ungoverned spaces. By thrusting its economic future and Xi Jinping's legitimacy on BRI's success, China will have an outsized stake in supporting friendly regimes and preserving domestic stability in recipient countries. This is fairly evident transitivity: greater investments leading to greater interests leading to enhanced measures to defend and protect against security threats to those interests. In the first instance, this will result in China providing resources to BRI countries to secure high-profile projects. Beijing has said it will rely on partner countries rather than provide security itself. This is fine in theory, but is unlikely to work: instability already reigns throughout these territories exactly because the host government is unable to provide higher levels of security. China will start with arms sales and technical assistance, but likely will find itself inserting personnel and its own military hardware into recipient countries before too long. That will put China alongside partner countries putting down insurgencies and suppressing dissent. Moreover, if Chinese nationals or businesses fall victim to political violence in recipient countries, Beijing will face considerable domestic pressure to respond with force.

Heightened regional rivalry: China is fond of presenting its foreign policies as "win-win" and to the benefit of all countries. This was relatively easy to do when China had a small footprint and was not inserting itself in regional affairs outside of its immediate periphery. This will change as China builds strategic infrastructure and extends its influence and power into contested areas and rivalrous regions. Already, the China-Pakistan Economic Corridor, so far the marque element of BRI, has raised hackles in New Delhi by pursuing investments in territory claimed by both India and Pakistan. Permanent or rotational PLA Navy presence at ports in the Indian Ocean will also heighten tensions with India. Likewise, projects in the Middle East will invariably affect the regional competition between Saudi Arabia and Iran.[10] Projects in Eastern Europe will, even if inadvertently, put a thumb on the scales between Western Europe, the European Union, and Russia. In each instance, China's efforts to not pick sides will become untenable, and Beijing will become increasingly invested in supporting specific parties. Moreover, China's influence will envelop areas that India and Russia consider within their traditional spheres of influence. This will produce overt competition over third countries when and where interests diverge between Beijing, New Delhi, and Moscow. Military relations and security assistance are likely to feature as important elements of those contests.

Recommendations for U.S. Policy

At least five principles should animate U.S. policy in response to potential strategic implications of Belt and Road: first, the U.S. security competition with China remains most urgent and intense in East Asia; second, economics and security are intimately linked and should be considered as essential legs of any policy; third, the United States needs an affirmative economic agenda in Asia, not just a defensive strategy against the negative externalities of BRI; fourth, public narratives are as important as the reality on the ground; five, the potential for backlash against China should not create complacency or give the impression that China's influence is not expanding nonetheless.

[10] Ilan Goldenberg and Ely Ratner, "China's Middle East Tightrope," *Foreign Policy,* April 20, 2015, http://foreignpolicy.com/2015/04/20/china-middle-east-saudi-arabia-iran-oil-nuclear-deal/.

Prevent China from controlling the South China Sea: The analysis above suggests that Belt and Road will draw and allow for greater Chinese military presence overseas, particularly in South and Central Asia. My own research on the implications of greater Chinese force projection capabilities arrived at the following (perhaps non-intuitive) conclusion: in response to China's growing force projection capabilities, the highest strategic priority for the United States should be ensuring that it remains competitive in East Asia and does not cede maritime zones within the "First Island Chain" in ways that give China free range to protect forces from deep within the South China Sea.[11] Belt and Road may solve China's "Malacca Dilemma," but it will not in and of itself alleviate America's ability to hold the Chinese military at risk along its littoral. I have presented my recommendations elsewhere for a comprehensive strategy for the South China Sea, and will only say here that current U.S. policy and inattentiveness is abetting ultimate Chinese control of the South China Sea.[12] If brought to conclusion, this will significantly enhance the coercive value of any overseas Chinese military presence in the Indian Ocean region. Bottom line: if the United States wants to reduce the potential threat of overseas PLA deployments as a result of BRI, it should focus first and foremost on East Asia, specifically the South China Sea.

Rejoin the Trans-Pacific Partnership: U.S. withdrawal from the Trans-Pacific Partnership (TPP) constitutes the Trump administration's biggest strategic mistake in Asia to date. Heightened concerns over America's commitment to the region and greater perceived likelihood of a China-led economic order have quickly cascaded into the security realm.[13] As a leading indicator in the South China Sea, regional countries have all but folded their hands in the absence of an alternative pole of power and influence from the United States. Where similar dynamics are present, this trend will likely play out repeatedly if and when BRI investments begin to flow. Although parts of Belt and Road will necessarily fall outside the scope of U.S. efforts to set high-standard trade and investment rules, knitting together TPP with the Transatlantic Trade and Investment Partnership (T-TIP) with Europe would have bracketed both sides of BRI, reducing China's coercive boon, resisting the spread of illiberalism, and creating political space for continued security cooperation with the United States. The Trump administration's strategy of pursuing a "free and open Indo-Pacific region" is the right instinct, but will fail without an economic component on par with the scale and scope of TPP. The Trump administration's approach to revising or even withdrawing from the Korea-U.S. Free Trade Agreement and the North American Free Trade Agreement will also shape the willingness of U.S. partners to engage in trade negotiations with the United States. The military consequences of BRI will be substantially larger without U.S. economic leadership in Asia and globally.

Engage in active "burden-shifting": BRI will increase China's interests in the stability and governance of areas where the United States is currently spending considerable resources. Afghanistan is the most obvious example, followed by Pakistan and parts of the Middle East. U.S. policymakers should map areas where China's interests are rising and, concurrently, the United States is overextended or bearing disproportionate costs. Rather than imploring Beijing to "burden-share" or be a "responsible stakeholder," the United States

[11] Elbridge Colby, Andrew Erickson, Zachary Hosford, Ely Ratner, and Alexander Sullivan, "More Willing and Able: Charting China's International Security Activism," *Center for a New American Security,* May 19, 2015, https://www.cnas.org/publications/reports/more-willing-and-able-charting-chinas-international-security-activism.

[12] Ely Ratner, "Course Correction: How to Stop China's Maritime Advance," *Foreign Affairs,* July/August 2017, https://www.foreignaffairs.com/articles/2017-06-13/course-correction.

[13] Ely Ratner and Samir Kumar, "The United States Is Losing Asia to China," *Foreign Policy,* May 12, 2017, http://foreignpolicy.com/2017/05/12/the-united-states-is-losing-asia-to-china/.

should consider unilaterally reducing its outlay of resources where U.S. and Chinese goals sufficiently overlap and where China's interests are sufficiently large such that Beijing will pick up the slack.

Rebuild institutions for U.S. information operations: The influence China is garnering from Belt and Road—and the ancillary effects on security and military matters of importance to the United States—far outstrip the actual economic value of the projects. In fact, much of what China cites as Belt and Road projects either predate the initiative or would have happened anyway in the natural course of China's economic assistance and activity.[14] Chinese officials have also talked about incorporating Latin America and the Arctic into Belt and Road, which would effectively make it simply a moniker for Chinese foreign policy, not a specific set of initiatives. This calls for more U.S. media and information platforms that can provide a degree of level setting about the facts and fictions of BRI, as well as the degree of U.S. and other country investment and assistance. Citizens in Southeast Asia, for instance, might be surprised to hear that U.S. and Japanese foreign direct investment in their region is considerably larger than Chinese. Both U.S. officials and U.S.-supported media can help to paint a more realistic and accurate picture of BRI. High-level statements voicing concerns about BRI from Secretary Mattis and Secretary Tillerson have been important. The Trump administration's sometimes-heard rhetorical formula is a good one: "In a globalized world, there are many belts and many roads, and no one nation should put itself into a position of dictating 'one belt, one road.'"[15] U.S. officials should also consider talking about the "Belt and Road Strategy," rather than using Beijing's more innocuous "Belt and Road Initiative." It would be even more effective to coordinate these messages with partners, particularly members of the newly-revived Quad (Australia, India, and Japan). The Trump administration has also begun to articulate an alternative vision of a "free and open Indo-Pacific" that protects the independence and sovereignty of regional countries.[16] U.S. foreign policy will have to do more to reflect this commitment to a more liberal order. In addition, current efforts to enhance U.S. broadcasting and information operations, largely in response to Russian disinformation campaigns, should also focus on developing more capable China-related and Chinese-language platforms to report on BRI activities in relevant countries.

Capacity-building for recipient countries: It bears underscoring that Belt and Road is not an inherently bad thing, despite the discussion herein of potential security challenges. Clearly, there is demand for more infrastructure in Eurasia, and there is no viable alternative to replace entirely China's potential provision of resources. That being said, negative externalities will develop if recipient countries are subject to corruption and coercion, or caught in debt traps that China exploits for political and strategic ends. At the low end of the spectrum, the United States should consider teaming up with like-minded countries (including Australia, Japan, and Singapore) to provide technical assistance to help recipient countries evaluate proposed major infrastructure projects. Washington should also consider which existing multilateral institutions could act as a clearing house of best practices or a forum to assess BRI projects. Cognizant of potential moral hazard, the United States could also consider working with other advanced economies to make funds available at

[14] Gabriel Wildau and Ma Nan, "China's New 'Silk Road' Investment Falls in 2016," *Financial Times,* May 10, 2017, https://www.ft.com/content/156da902-354f-11e7-bce4-9023f8c0fd2e.

[15] Wade Shepard, "Why the Ambiguity of China's Belt and Road Initiative is Perhaps Its Biggest Strength," *Forbes,* October 19, 2017, https://www.forbes.com/sites/wadeshepard/2017/10/19/what-chinas-belt-and-road-initiative-is-really-all-about/#394cbff9e4de.

[16] Rex W. Tillerson: "Remarks on 'Defining Our Relationship With India for the Next Century,'" October 18, 2017, *U.S. Department of State*, https://www.state.gov/secretary/remarks/2017/10/274913.htm.

affordable interest rates for governments stuck in BRI debts traps. Countries like Sri Lanka and Myanmar should have alternatives to handing over vital infrastructure to China if they are indebted to Beijing.

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Securing China's Belt and Road Initiative: Dimensions and Implications

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Testimony before the U.S.-China Economic and Security Review Commission
Hearing on "China's Belt and Road Initiative: Five Years Later"
25 January 2018

Executive Summary

Although China's official rhetoric casts it in solely economic terms, the Belt and Road Initiative (BRI) also has well-defined strategic and security aspects: it contributes to China's overall national security, but is also subject to a variety of operational and strategic challenges. Chinese sources suggest that Beijing is using BRI investments as a means of stabilizing border regions, securing energy supply routes, and cultivating stronger diplomatic and economic influence with partner nations. However, those goals could be constrained by challenges ranging from the physical risks of operating in remote and unstable areas to the possibility of unilateral and coordinated opposition from other major powers. These are in addition to the inherent economic challenges associated with infrastructure development (such as the ability of developing and poorly governed states to repay debts).

Aware of the risks, Beijing is marshalling all forms of national power to create a safer and more strategically advantageous context for the BRI. The People's Liberation Army (PLA) is improving its ability to carry out non-traditional security operations such as non-combatant evacuations and disaster relief missions at longer range and for longer periods. China is also developing other options, including host nation support, private security firms, and law enforcement initiatives, to secure BRI personnel and assets. At the strategic level, Beijing is using high-level engagements, public diplomacy, and economic inducements to reduce the potential for the BRI to aggravate competition with other major powers.

China's success will depend in part on the reactions of other countries. From a U.S. perspective, the Trump administration will have to weigh competing factors as it designs a response: overt confrontation with Beijing may impose a cost on U.S. firms hoping to take advantage of new opportunities and harm U.S.-China relations, while accommodation could fuel Chinese ambitions, jeopardize U.S. interests in prudent lending and market access, and alienate U.S. partners such as Japan and India that have expressed serious concerns about China's activities. The Department of Defense will also have to consider tradeoffs as it decides whether, and how, to collaborate with the PLA in ways that enhance security along BRI routes. At a minimum, the

[1] The views expressed in this testimony are those of the author and are not an official policy or position of the National Defense University, the Department of Defense or the U.S. Government. A basis of this testimony is Joel Wuthnow, *Chinese Perspectives on the Belt and Road Initiative: Strategic Rationales, Risks and Implications* (Washington, DC: NDU, 2017).

department will have to prepare for a greater PLA role outside of East Asia, and maintain contact with Chinese counterparts in order to better understand their goals and capabilities, de-conflict activities, and determine whether and where there may be opportunities for cooperation.

Strategic Aspirations

As a matter of public diplomacy, Chinese officials have consistently framed the BRI as a "win-win" economic project: its success will contribute to the long-term economic growth of both China and its Eurasian partners.[2] One interlocutor outlined three more specific economic goals: facilitating new markets for China's excess industrial capacity (especially massive stocks of steel, concrete, and other building materials leftover from China's stimulus response to the 2008 global financial crisis), spurring development in China's impoverished western regions, and providing a "new form of globalization" that would be more equitable than the postwar system which primarily served western interests.[3] By contrast, Chinese rhetoric downplays the strategic advantages that will accrue to Beijing.

Nevertheless, foreign observers have speculated about Beijing's ulterior geopolitical motives.[4] Commentators liken the BRI to the Marshall Plan—i.e., a way for China to create strategic advantage in its backyard just as the United States used economic statecraft to cement its position in Western Europe following World War II—and as a modern manifestation of early 20th century British geographer Halford Mackinder's thesis that dominating Eurasia is a prerequisite for global hegemony.[5] In carefully-argued research, Nadège Rolland depicts the BRI as part of China's "grand strategy," using all elements of national strength to "assert [China's] influence and reshape at least its own neighborhood."[6]

Chinese strategic assessments—those carried out by professional civilian and military analysts within domestic journals, books, and reports, and not intended primarily for foreign consumption—help validate international concerns about the BRI's geopolitical underpinnings. Chinese analysts routinely cite the following as advantages:[7]

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[2] See, e.g., Xi Jinping, "Work Together to Build the Silk Road Economic Belt and the 21st Century Maritime Silk Road," Speech at the Belt and Road Forum for International Cooperation, May 14, 2017, http://news.xinhuanet.com/english/2017-05/14/c_136282982.htm.

[3] Discussions with PLA interlocutors, Beijing, December. The analyst contrasted the "new form of globalization" with a previous, U.S.-led wave that "primarily benefited transnational western companies and increased the gap between rich and poor countries."

[4] However, one analyst warns observers not to overstate the BRI's strategic objectives, pointing to the greater importance of economic and political motivations. Christopher K. Johnson, *President Xi Jinping's 'Belt and Road' Initiative* (Washington, DC: CSIS, 2016), v.

[5] See, e.g., Enda Curran, "China's Marshall Plan," *Bloomberg*, August 7, 2016, https://www.bloomberg.com/news/articles/2016-08-07/china-s-marshall-plan; Joseph S. Nye, "Xi Jinping's Marco Polo Strategy," *Project Syndicate*, June 12, 2017, https://www.project-syndicate.org/commentary/china-belt-and-road-grand-strategy-by-joseph-s--nye-2017-06.

[6] Nadège Rolland, "China's 'Belt and Road Initiative': Underwhelming or Game-Changer?" *The Washington Quarterly* 40:1 (2017), 136.

[7] For more details, see Wuthnow, *Chinese Perspectives on the Belt and Road Initiative*, 9-13; see also Nadège Rolland, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative* (Washington, DC: NBR, 2017), 109-119.

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- *A Safer Neighborhood.* Mitigating threats across China's restive western periphery is a perennial challenge for Beijing. Key problems include Tibetan and Uighur separatist movements and their cross-border advocates, narcotics trafficking, infiltration of Islamic extremists into western China via Central Asia, and even concerns about foreign-sponsored "color revolutions" in border areas.[8] Fostering infrastructure development and regional economic connectivity, in the view of Chinese analysts, can help address the roots of instability by lifting neighboring populations out of poverty, bolstering (often authoritarian and China-friendly) regimes, and tying Xinjiang more closely into the regional economy. A related benefit, though not explicitly argued in Chinese sources, is that a safer western border region implies fewer strategic distractions and more resources available for China to expand its influence across maritime Asia.[9]

- *More Secure Energy Supply and Transport Routes.* Another persistent dilemma has been diversifying China's energy supplies, which remain heavily dependent on maritime transport routes through the Strait of Malacca and other chokepoints.[10] Dubbed the "Malacca Dilemma" during the Hu Jintao era, the concern is that China's oil imports could be subject to interdiction by foreign navies during a crisis. BRI projects such as an oil pipeline linking Pakistan's Gwadar Port with Xinjiang and a second Sino-Russian oil pipeline (which came online in January 2018[11]) could help reduce, but not eliminate, China's overreliance on vulnerable sea lanes. The BRI's maritime component, known as the Maritime Silk Road, could also help secure China's continuing maritime shipments through additional port development, including the opening of new PLA navy overseas logistics bases.[12]

- *Stronger Chinese Economic and Diplomatic Influence.* Drawing from a prominent 2012 *Global Times* editorial by Beijing University professor Wang Jisi, Chinese analysts portray the unveiling of BRI projects as the realization of a "march west"—the premise being that the absence of the United States as a strategic heavyweight in Eurasia has created an opportunity for China to extend its diplomatic and economic influence in the

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[8] See, e.g., "China's Military Strategy," State Council Information Office, May 26, 2015, http://news.xinhuanet.com/english/china/2015-05/26/c_134271001.htm.

[9] For a discussion of Chinese strategic aims along the Asian littoral, see Joel Wuthnow, "Asian Security without the United States? Examining China's Security Strategy in Maritime and Continental Asia," *Asian Security*, September 2017, http://www.tandfonline.com/doi/abs/10.1080/14799855.2017.1378181.

[10] For data on Chinese oil imports, see U.S. Energy Information Administration, China Overview, last updated May 14, 2015, https://www.eia.gov/beta/international/analysis.cfm?iso=CHN. According to the CSIS China Power Project, 80% of China's oil imports in 2016 passed through the Strait of Malacca. See: https://chinapower.csis.org/much-trade-transits-south-china-sea/

[11] The second pipeline, connecting Siberia with China's northeast, doubles Russia-supplied oil from 15 to 30 million tons/year. "Russia Tightens Oil Group With China's Second Pipeline," *Bloomberg*, January 1, 2018, https://www.bloomberg.com/news/articles/2018-01-01/second-chinese-crude-oil-pipeline-linked-to-russia-s-espo-opens.

[12] An initial overseas base was opened in Djibouti in July 2017, while a second facility may be under construction near Gwadar Port on the Arabian Sea. Minnie Chan, "First Djibouti… Now Pakistan Port Earmarked for a Chinese Overseas Naval Base, Sources Say," *South China Morning Post*, January 5, 2018, http://www.scmp.com/news/china/diplomacy-defence/article/2127040/first-djibouti-now-pakistan-port-earmarked-chinese.

region while avoiding a costly direct competition with Washington.[13] BRI projects are thus not only useful in facilitating regional economic integration, but also buttress China's simultaneous efforts to solidify bilateral relations with key partners. For instance, development of China-Kazakhstan freight and passenger lines since 2013 support the elevation of bilateral relations into a "comprehensive strategic partnership," which also includes regular high-level diplomacy, counter-terrorism cooperation, and expansion in bilateral trade.[14]

While articulating clearly defined, and ambitious, strategic objectives, Chinese assessments generally avoid more sweeping proclamations about Beijing's willingness or ability to create an uncontested, Mackinder-esque sphere of influence in Eurasia. There are several reasons why Chinese self-assessed aims may remain limited, rather than expansive. BRI projects are funded primarily by loans that are meant to eventually be repaid. However, China is investing in countries that, in many cases, pose significant credit risk: a 2017 Moody's analysis, for instance, found that 54% of BRI investments have gone to countries with poor (i.e. Ba1 or lower) investment ratings.[15] Christopher Johnson also suggests that the underlying political motives driving the BRI, including the need to buttress Xi Jinping's political legacy, mean that the Party leadership may "stay the course" on high-profile but financially unsound projects, resulting in a bleaker long-run economic outlook.[16]

From a security perspective, Chinese analysts are also conscientious of the potential pitfalls. Rather than inflating the prospects for strategic gains, Chinese sources tend to focus more on the operational and strategic-level vulnerabilities that Beijing will have to address in order to successfully implement BRI projects. Often debating amongst themselves, authors offer a variety of proposals for how to mitigate those risks using both military and civilian means.

Operational Risks and Mitigation Strategies

Even before the BRI was launched in late 2013, China had experienced the dangers involved in conducting business operations in remote and unstable regions. Major incidents, such as 2006 anti-China riots in Zambia and the 2011 Libyan civil war, which required the PLA to conduct an improvised evacuation of around 35,000 Chinese oil workers, grabbed domestic headlines and placed an impetus on Beijing to consider how Chinese personnel and assets could be protected.[17] Thus Chinese officials have been under no illusions about the physical risks involved in building infrastructure and transportation networks across conflict prone areas of Central and South Asia, and into the Middle East. Setting public expectations at a realistic level, Xi acknowledged in

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[13] Wang Jisi, "'March West,' China's Geostrategic Rebalance" ['西进,' 中国地缘战略的再平衡], *Global Times* [环球时报], October 17, 2012, http://opinion.huanqiu.com/opinion_world/2012-10/3193760.html

[14] "China Focus: China, Kazakhstan Move Closer with Belt and Road Cooperation," Xinhua, June 9, 2017, http://news.xinhuanet.com/english/2017-06/09/c_136353535.htm.

[15] David Ho, "Cost of Funding 'Belt and Road Initiative' is Daunting Task," *South China Morning Post*, September 27, 2017, http://www.scmp.com/special-reports/business/topics/special-report-belt-and-road/article/2112978/cost-funding-belt-and.

[16] Johnson, *President Xi Jinping's 'Belt and Road' Initiative*, 23.

[17] See Mathieu Duchâtel, Oliver Brauner, and Zhou Hong, Protecting China's Overseas Interests (Stockholm: Stockholm International Peace Research Institute, 2014).

2017 that the BRI runs through areas marked by "conflict, turbulence, crisis, and challenge," and called for stronger security cooperation between partner nations.[18]

Although China has thus far avoided major security incidents along BRI routes, several recent cases illustrate the potential risks to BRI workers and projects. These include the March 2015 evacuation of more than 500 Chinese nationals from Yemen, denoting not only risks to overseas workers, but also regional instability astride key maritime shipping lanes; the November 2015 killing of a Chinese citizen by ISIS radicals in Syria; the May 2017 abduction and murder of two Chinese citizens in Pakistan's Baluchistan province (site of Gwadar Port and other key BRI projects);[19] and a December 2017 Chinese embassy warning that terrorist attacks in Pakistan may be imminent.

Chinese analysts anticipate that these types of problems will expand as BRI projects enter their construction and operational phases. Key challenges include inter- and intrastate sectarian violence, which could destabilize host nations and place workers in danger; hostage-taking for ransom; terrorist attacks carried out by groups such as ISIS, Pakistani militants, or the Turkestan Independence Party (formerly known as the East Turkestan Independence Movement); and major natural disasters such as earthquakes and mudslides, which may be increasing due to climate change effects.[20] These problems are exacerbated by China's limited capacity to address them. Chinese sources identify problems such as insufficient strategic air and sea lift (needed to carry out non-combatant evacuations), inadequate private personnel security services, and weak political risk analysis capabilities.[21]

These assessments have prompted consideration of the ways in which China needs to be prepared to secure its overseas BRI interests. Analysts discuss the tradeoffs of different types of approaches, which include the following:

- *Stronger Expeditionary Capabilities.* One remedy would be expanding expeditionary PLA capabilities, such as more long-range naval deployments (and overseas logistics bases), additional strategic air lift, and more rapidly deployable ground forces.[22] Such assets would be helpful in defending critical sea lanes, as well as in conducting non-combatant evacuation, disaster relief, and counter-terrorism operations. PLA interlocutors also envision a "network" of international peacekeeping forces, including Chinese personnel, which could be available to protect overseas projects.[23] However, challenges

[18] "Full Text of President Xi's Speech at Opening of Belt and Road Forum," Xinhua, May 14, 2017, http://news.xinhuanet.com/english/2017-05/14/c_136282982.htm.

[19] Pakistan did not confirm the murders of two Chinese teachers until October 2017. See: "Pakistan Confirms Deaths of Two 2 Kidnapped Chinese Nationals," *China Daily*, October 31, 2017, http://www.chinadaily.com.cn/world/2017-10/31/content_33929197.htm

[20] For further details, see Wuthnow, *Chinese Perspectives on the Belt and Road Initiative*, 13-7.

[21] Interviews, Beijing, December 2017

[22] The 2017 DOD China military power report illustrates the PLA's progress in fielding an expeditionary force: the ground forces are generating rapidly deployable forces "through the development of army aviation units, special operations forces, and air-land mobility" (2); the PLA air force has debuted its domestic- produced Y-20 strategic transport aircraft, whose missions include HA/DR, replacing a small fleet of Russian-origin aircraft (29); and the navy's current and planned aircraft carriers will "help enable task group operations in the 'far seas.'" (52).

[23] Indeed, China has already relied on UN peacekeeping forces to safeguard overseas assets; the clearest example is the involvement of Chinese military personnel in the UN mission in South Sudan, site of major Chinese oil

to a military-centered approach could include added financial burdens in an era of declining budget growth, resistance from the services (who may oppose resource allocations that distract from core warfighting missions), domestic and foreign opposition to putting Chinese "boots on the ground," and the fact that some risks, such as localized terrorist incidents, may not require military intervention.

- *Host Nation Support.* Another approach is relying more extensively on host nation law enforcement, intelligence, and military support. The most prominent example is a 12,000-strong force drawn from the Pakistani army that has protected Chinese workers in Gwadar and other sites along the China-Pakistan Economic Corridor since 2015.[24] PLA interviewees also describe the possibility of working with the Taliban, who they characterized as a "friendly" organization, to protect Chinese copper mines in northeast Afghanistan that have been dormant for years because of security concerns.[25] Benefits of this approach could include cost effectiveness, delegation of risks to non-Chinese nationals, and reliance on forces with intimate knowledge of local languages, customs, and terrain. Key challenges, however, would include limited host nation capacity to handle major emergencies, reliability, and opposition of foreign publics to units being allocated to protect Chinese workers and assets.

- *Private Security Services.* A third approach is increasing reliance on foreign or Chinese personnel security companies, in addition to insurance and risk assessment services. Some Chinese firms may contract with more expensive but experienced foreign security providers such as Academi (formerly known as Blackwater), while other may hire cheaper domestic contractors. Chinese oil conglomerate Sinopec, for instance, has retained Shanghai-based Dewei Security to provide self-defense training for overseas workers, and to engage local employees to provide personnel and site protection.[26] Although cost effective and potentially useful in addressing low-level risks, deficiencies of relying on private Chinese security companies include limited regional expertise, domestic regulations prohibiting overseas ownership of firearms, and employment of local contractors who may not be reliable.[27]

investments. See Colum Lynch, "U.N. Peacekeepers to Protect China's Oil Interests in South Sudan," *Foreign Policy*, June 16, 2014, http://foreignpolicy.com/2014/06/16/u-n-peacekeepers-to-protect-chinas-oil-interests-in-south-sudan/.

[24] Saeed Shah and Josh Chin, "Pakistan to Create Security Force to Protect Chinese Workers," *Wall Street Journal*, April 22, 2015, https://www.wsj.com/articles/pakistan-to-create-security-force-to-protect-chinese-workers-1429701872. Thousands of additional security and police personnel were deployed in 2017 in Sindh province, including placing jammers on Chinese vehicles to avoid improvised explosive devices. See: "CM Sindh Directs to Provide Special Security for Chinese Working on CPEC Projects," *The Nation*, December 7, 2017, http://www.cpecinfo.com/cpec-news-detail?id=MzQ0NQ==.

[25] Ironically, the Taliban was suspected of killing 11 Chinese road construction workers in Afghanistan in a 2004 attack. See Carlotta Gall, "Taliban Suspected in Killing of 11 Chinese Workers," *New York Times*, June 11, 2004, http://www.nytimes.com/2004/06/11/world/taliban-suspected-in-killing-of-11-chinese-workers.html.

[26] "Sinopec Conducted First Overseas Security Training for 2015," Sinopec News, January 12, 2015, http://www.sinopecgroup.com/group/en/Sinopecnews/20150121/news_20150121_650598841619.shtml.

[27] Interviews, Beijing, December 2017. Chinese interlocutors worry in particular about a "Benghazi" scenario developing in which local security contractors fail to protect employees during a crisis.

- *International Cooperation*. A final option is to strengthen bilateral or multilateral security partnerships to collectively address risks. Examples include combined training with foreign partners in non-traditional security areas such as counter-piracy, counter-terrorism, and disaster relief;[28] maritime security cooperation, such as joint China-ASEAN patrols in the Mekong River basin; and intelligence sharing and law enforcement cooperation, including a counter-terrorism mechanism established in 2016 between China, Pakistan, Afghanistan, and Tajikistan.[29] These activities provide several advantages, such as cost distribution, capacity building, and generating mutual trust and regional awareness, but are generally not oriented towards crisis response and remain contingent on the commitment of resources from both China and partner governments.

The key source of debate between Chinese analysts is how much emphasis to place on building the PLA, whose Party-defined responsibilities include protection of China's overseas interests, into a more global expeditionary force, versus outsourcing security to different arrangements (host nation support, private security, or international cooperation).[30] Although the mix of strategies remains in flux, extrapolating from current trends suggests that Beijing will rely on a multi-layered patchwork of different approaches, varying across regions and focused on different types of threats, to reduce operational challenges facing the BRI.

Strategic Risks and Mitigation Strategies

At the strategic level, the BRI is not unfolding in a geopolitical vacuum: several other major powers have concerns about how China's activities will affect their interests. Despite a May 2015 Sino-Russian agreement to forge a "great Eurasian partnership," for instance, some Russian analysts remain wary about China's growing presence in Central Asia.[31] Indian strategists worry that Chinese investments in the Indian Ocean region, such as port development projects in Sri Lanka and Pakistan, will precipitate a greater Chinese naval presence in India's backyard.[32] Indian officials and major thinkers have also criticized the BRI as predatory and illiberal.[33] The 2017 U.S. National Security Strategy, without naming the BRI, warns about Chinese attempts to

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[28] For instance, the PLA navy conducted its first anti-piracy exercise with the U.S. navy in September 2012 and with NATO in November 2015. For an overview of Chinese military diplomacy, see Kenneth Allen, Phillip C. Saunders, and John Chen, *Chinese Military Diplomacy, 2003-2016: Trends and Implications* (Washington, DC: NDU, 2017).

[29] "Afghanistan, China, Pakistan, Tajikistan Issue Joint Statement on Anti-Terrorism," *China Military Online*, August 4, 2016, http://eng.mod.gov.cn/DefenseNews/2016-08/04/content_4707451.htm.

[30] Some PLA analysts are surprisingly frank about the limitations of the military's' ability to respond across different types of threats, despite invocations since the Hu Jintao era for the PLA to be able to protect overseas interests. For instance, Major General Zhu Chenghu argues that China should rely less on the PLA and more on private security companies. See: "NDU Professor: 'One Belt, One Road' Requires Building Overseas Security Capabilities" [国防大学教授: '一带一路' 要建海外安保力量], *Ta Kung Pao* [大公网], May 13, 2015, http://news.takungpao.com/mainland/focus/2015-05/2998430.html.

[31] For an analysis, see Sebastien Peyrouse, "The Evolution of Russia's Views on the Belt and Road Initiative," *Asia Policy* 24 (July 2017), 96-102.

[32] Dhruva Jaishankar, "India Feeling the Heat on Belt and Road," *Lowy Interpreter*, August 21, 2017, https://www.lowyinstitute.org/the-interpreter/india-feeling-heat-belt-road.

[33] See, e.g., Harsh V. Pant, "India Challenges China's Intentions on One Belt, One Road Initiative," *Observer Research Foundation (ORF)* Commentaries, June 22, 2017, http://www.orfonline.org/research/india-challenges-china-intentions-one-belt-one-road-initiative/.

"displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor."[34]

Such concerns have led major countries to propose alternative economic corridors and ways of financing them.[35] In May 2015, Japan announced a five-year, $110 Billion plan to support private funding of "quality infrastructure" projects, using criteria such as long-run cost effectiveness, local job creation, and environmental sustainability.[36] Two years later, Tokyo and New Delhi released a vision for an "Asia-Africa Growth Corridor," described as a "people-centric sustainable growth strategy" that would increase economic connectivity between the two continents through infrastructure development, vocational training, and cooperative projects in areas such as agro processing and pharmaceuticals.[37] The December 2017 U.S. National Security Strategy argued that modernization of development finance should be a priority so that the United States "will not be left behind as other states use investment and project finance to extend their influence."[38] Washington has also discussed alternative trade, transit, and financing frameworks with various Indo-Pacific partners, including at a re-conceptualized iteration of the U.S.-Japan-India-Australia quadrilateral dialogue, held in Manila during President Trump's November 2017 visit.[39]

Chinese analysts have devoted significant attention to these trends, often concluding that individual or collective responses by other powers could inhibit China's competitiveness.[40] Key ways in which strategic competition can be reduced, in their view, include the following:

- *Coopting foreign business elites.* One method is developing partnerships with foreign companies. One Chinese report, for instance, argued that the BRI will provide U.S. firms with "great business opportunities in all sectors," citing cooperation between General Electric and the China National Machinery Industry Corporation in building Kenya's wind power infrastructure as a successful model (albeit not a BRI project per se).[41] The premise is that pressure from the business community will translate into political support. Whether this approach will succeed in the U.S. context is unclear. Comments during the early months of the Trump administration highlighting potential U.S. economic cooperation in BRI projects has given way to a stronger emphasis, evident during the 2017 quadrilateral discussions in Manila, on prudent lending and cooperation between Indo-Pacific democratic allies and partners.[42]

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[34] The White House, *National Security Strategy of the United States of America*, December 2017, 25.

[35] Thanks to NDU's Thomas Lynch for data points in this area.

[36] Japanese Ministry of Foreign Affairs, "Partnership for Quality Infrastructure," May 21, 2015, 1-2.

[37] "Asia Africa Growth Corridor: Partnership for Sustainable and Innovative Development," Presentation at the African Development Bank Meeting, May 2017.

[38] The White House, *National Security Strategy of the United States of America*, December 2017, 39.

[39] "Australia-India-Japan-U.S. Consultations on the Indo-Pacific," U.S. State Department, November 12, 2017, https://www.state.gov/r/pa/prs/ps/2017/11/275464.htm.

[40] Wuthnow, *Chinese Perspectives on the Belt and Road Initiative*, 17-22.

[41] *Boarding the Fast Train: Case Studies and Practical Solutions for the U.S. to Connect to the Belt and Road Initiative*, Chongyang Institute for Financial Studies, Renmin University, September 2017, 3-10.

[42] Early comments include NSC Senior Director for Asia Matt Pottinger's reported comments at the May 2017 Belt and Road Forum suggesting that U.S. companies as "ready to participate in Belt and Road projects." Stuart Lau, "U.S. Warms Up to 'Belt and Road' Business Potential," *South China Morning Post*, May 14, 2017, http://www.scmp.com/news/china/diplomacy-defence/article/2094295/us-warms-belt-and-road-business-potential.

- *Leveraging bilateral relationships.* China has also leveraged bilateral relationships to encourage support for the BRI. For example, a November 2017 meeting between Xi and Japanese Prime Minister Shinzo Abe, in which the two leaders agreed to make a "fresh start" in Sino-Japanese relations, led in part to Tokyo offering financial incentives for Japanese firms to build joint ventures with Chinese companies in areas related to infrastructure development (though perhaps intended more as a substitute than a complement to the BRI framework).[43] China has also solicited U.S. support for the BRI in high-level meetings, though with less tangible results.[44] Coercive diplomacy is also an option. Some Indian observers, for instance, contend that China escalated tensions in the Doklam border region during mid-2017 in order to signal dissatisfaction with Prime Minister Narendra Modi's absence from the Belt and Road Forum, and to push India into a more positive approach toward BRI.[45]

- *Shaping international public opinion*. A third method is working through media, public diplomacy, and Track II channels to reduce suspicions about the BRI in major countries and explore avenues of cooperation. Messages delivered by PLA interlocutors in recent discussions, for instance, include casting U.S. officials' criticisms of the BRI, such as those offered by Secretary of State Rex Tillerson in October 2017,[46] as unfair, affirming that China's ultimate ambition is not to "replace the U.S. as world hegemon," and framing the BRI as a "constructive means" for both countries to improve relations and contribute to global public goods provision.[47]

Largely absent from Chinese assessments is the acknowledgement that China's own practices may be contributing to regional demand for alternative infrastructure funding. Secretary Tillerson argued that the nature of Chinese financing is burdening partners with "enormous levels of debt," and resulting in projects that rely on "foreign workers," rather than creating local jobs.[48] In Djibouti, for instance, three China-backed projects have led the debt-to-GDP ratio to balloon from 50% in 2014 to 85% in 2016, with the International Monetary Fund warning that the country remains at high risk of debt distress.[49] This has prompted concerns about whether

[43] "Japan to Help Finance China's Belt and Road Projects: Nikkei," Reuters, December 5, 2017, https://www.reuters.com/article/us-japan-china-beltandroad/japan-to-help-finance-chinas-belt-and-road-projects-nikkei-idUSKBN1E003M.

[44] See, e.g., "U.S. President Donald Trump Meets With Yang Jiechi," *PRC Ministry of Foreign Affairs*, June 23, 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1473199.shtml.

[45] Sushil Aaron, "Is China Punishing India For Its Belt and Road Stance While Testing Modi and Trump?" *Hindustan Times*, July 4, 2017, http://www.hindustantimes.com/opinion/is-china-punishing-india-for-its-belt-and-road-stance-while-testing-modi-and-trump/story-1NIB0lcGtgMy4UVO5pDO1M.html.

[46] See Rex W. Tillerson, "Remarks on 'Defining Our Relationship With India For the Next Century," Delivered at CSIS, October 18, 2017, https://www.state.gov/secretary/remarks/2017/10/274913.htm.

[47] Discussions with PLA interlocutors, Beijing, December 2017

[48] Tillerson, "Remarks on 'Defining Our Relationship With India For the Next Century."

[49] International Monetary Fund, "Djibouti: Staff Report for the 2016 Article IV Consultation—Debt Sustainability Analysis," February 7, 2017, 1.

China will translate its partners' debts into geopolitical influence; one government critic told the *New York Times* that, "We don't know what China's intentions really are."[50]

None of Beijing's options to assuage local concerns are particularly attractive. One approach is using public diplomacy to counter narratives about China acting as a "neocolonial power,"[51] but this message will not resonate if projects fail to create local jobs, worsen local corruption problems, or create environmental problems.[52] Another choice would be debt forgiveness, but this would strain government coffers and underscore the poor decision-making that contributed to non-performing BRI loans. China may also convert unpaid debt to equity shares in infrastructure projects, as in Sri Lanka's December 2017 decision to grant China a 99-year lease of the Hambantota port to repay part of its $8 Billion debt. However, this could raise local concerns to even higher levels as critical infrastructure is ceded to a foreign power.[53] Thus, states may seek alternative financing—or forego projects altogether.[54]

Conclusion and Policy Implications

In sum, the strategic aims driving the BRI—creating a safer neighborhood, securing energy supplies, and cultivating influence—are ambitious, though somewhat attenuated by perceived risks and challenges. Not only are BRI projects subject to the physical risks inherent in large-scale infrastructure development across the Eurasian hinterland, which are exacerbated by China's limited ability to address them, but the whole enterprise is also vulnerable to unilateral or collective responses by China's major competitors. Souring relations between China and partner nations, due to the norms, premises, and stringent terms attached to BRI locations and financing, may impose further limits on Beijing's ability to convert economic cooperation into geopolitical gains.

China's success will depend in part on the reactions of other major countries. From a U.S. perspective, policymakers will have to weigh multiple competing factors in designing a coherent response. On one hand, overt confrontation with Beijing would be an irritant in U.S.-China relations and potentially cost U.S. firms the chance to take part in BRI projects (as illustrated by a recent agreement between General Electric and China's Silk Road Fund in the energy investment arena).[55] On the other hand, accommodation could imperil U.S. stakes in prudent lending and Eurasian market access, alienate U.S. partners such as Japan and India that have expressed serious concerns about China's activities, and fuel China's strategic aims beyond their current levels. U.S. officials will also need to evaluate the costs and opportunities of developing

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[50] Andrew Jacobs and Jane Perlez, "U.S. Wary of Its New Neighbor in Djibouti: A Chinese Naval Base," *New York Times*, February 25, 2017, https://www.nytimes.com/2017/02/25/world/africa/us-djibouti-chinese-naval-base.html.

[51] Rolland, "China's 'Belt and Road Initiative,'" 135-6.

[52] Joshua Eisenman and Devin T. Stewart, "China's New Silk Road Is Getting Muddy," *Foreign Policy*, January 9, 2017, http://foreignpolicy.com/2017/01/09/chinas-new-silk-road-is-getting-muddy/.

[53] Kai Schultz, "Sri Lanka, Struggling With Debt, Hands a Major Port to China," *New York Times*, December 12, 2017, https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html.

[54] Saibal Dasgupta and Anjana Pasricha, "Pakistan, Nepal, Myanmar Back Away from Chinese Projects," VOA, December 4, 2017, https://www.voanews.com/a/three-countries-withdraw-from-chinese-projects/4148094.html. [55]

"General Electric, China's Silk Road Fund to Launch Energy Investment Platform," Reuters, November 9, 2017, https://www.reuters.com/article/us-trump-asia-china-deals-ge/general-electric-chinas-silk-road-fund-to-launch-energy-investment-platform-idUSKBN1DA057.

alternatives to BRI routes and financing, including the potential for cooperation with Indo-Pacific allies and partners.

Congress can play a role in ensuring the development of a pragmatic U.S. strategy. The Trump administration has offered some implicit critiques of the BRI,[56] and suggested the need for alternative infrastructure development approaches. Congress could ask U.S. officials to articulate a more detailed strategic approach for protecting U.S. values and interests, including specifying the resources needed to offer alternatives for the region. In addition, Congress's research arms can sponsor independent analysis of U.S. interests and strategic options (e.g., ways in which the United States can partner with Japan, India, and others to promote alternative economic corridors and offer alternative financing).

A narrower question is whether and how the Department of Defense should cooperate with China in areas related to securing BRI routes. As part of Xi's emphasis on improving U.S.-China military relations,[57] the PLA has pursued increased operational and training cooperation with the United States in areas such as humanitarian assistance/disaster relief, counter-piracy, and counter-terrorism.[58] From a Chinese perspective, this engagement is not only useful in fostering mutual trust, but may also help create a safer environment for China's overseas interests. Some of these activities have already been pursued, including U.S.-China combined counter-piracy exercises in the Gulf of Aden, last held in December 2014, and China's participation in the non-traditional security portions of the U.S.-led multinational RIMPAC exercise.

However, bilateral military cooperation will need to be pursued in the context of U.S. strategic goals, policy judgments, and legal constraints. The 2000 National Defense Authorization Act, in particular, requires the Secretary of Defense to restrict engagements with the PLA in 12 areas when contact would create a "national security risk due to an inappropriate exposure." Counter-terrorism cooperation, for instance, could expose the PLA to advanced warfighting tactics, techniques, and procedures, even if both countries share an interest in reducing terrorist threats.[59] Thus caution in responding to Chinese entreaties is warranted, and sensible. At a minimum, the geographic combatant commands should remain in regular contact with their Chinese counterparts as PLA units enter their areas of responsibility, so as to better understand Chinese goals and capabilities, de-conflict activities, and identify areas where both sides may cooperate to achieve shared goals.

U.S. officials should also anticipate that expansion of BRI projects will be accompanied by enhanced Chinese military diplomacy throughout Eurasia. Over the past 15 years, China has expanded capacity-building, combined training, and high-level engagements with states such as Pakistan and Afghanistan; those efforts may continue both as part of a broader effort to

[56] These include the State Department's readout of the U.S.-Japan-India-Australia quadrilateral dialogue, which referenced "increasing connectivity consistent with international law and standards, based on prudent financing," and the December 2017 National Security Strategy, which discussed modernization of development finance.
[57] For a discussion, see Phillip C. Saunders and Julia G. Bowie, "U.S.-China Military Relations: Competition and Cooperation," *Journal of Strategic Studies* 39:5-6 (2016), 662-684.
[58] Interviews, Beijing, December 2017.
[59] For an analysis of opportunities and challenges in U.S.-China counter-terrorism cooperation, see Murray Scot Tanner and James Bellacqua, *China's Response to Terrorism*, Report for the U.S. China Commission, June 2016, 127-130.

strengthen bilateral relations and to help stabilize BRI partners.[60] As China's military diplomacy expands, partners could have incentives to play Beijing and Washington against each other to secure better deals, or request that the two countries more effectively coordinate their security assistance programs. Thus the Department of Defense and other stakeholders should monitor these dynamics and determine whether and where, if appropriate, U.S. security programs may need to adapt to changing circumstances.

[60] Allen, Saunders, and Chen, *Chinese Military Diplomacy, 2003-2016*, 11.

OPENING STATEMENT OF DANIEL KLIMAN
SENIOR FELLOW, ASIA-PACIFIC SECURITY PROGRAM, CENTER FOR A NEW AMERICAN SECURITY

HEARING CO-CHAIR SHEA: Thank you, Dr. Ratner.

Dr. Kliman.

DR. KLIMAN: Commissioner Shea, Commissioner Tobin, thank you for the opportunity to testify before this distinguished Commission.

I want to commend you for holding a day-long hearing on different aspects of BRI. It's a very important issue that cuts across many of the U.S. government's traditional regional offices and functional areas of focus, one that is very hard for the U.S. government to get its head around. And this type of hearing I think it crucial to informing the U.S. government as it tries to formulate a response, very much hopefully in the larger context of how the U.S. deals with a rising China.

I want to quickly give you some of the wave tops of my written testimony, and I may stray a little bit beyond seven minutes but I promise I won't go on too long beyond that.

First, again, context to emphasize. China seeks to transform the rules-based international order, and BRI is one element of that larger approach. While my testimony is going to focus on BRI, it is important to keep in mind the larger context, which is the need to formulate a U.S. response that is nested within a positive American strategy to reinforce the rules, norms, relationships, and institutions that have underpinned peace, prosperity, and democracy expansion for more than seven decades.

Turning to the drivers beyond BRI. As you most likely heard during the last panel, they are primarily domestic economic relating to China. But there are certainly geostrategic and military considerations.

Above all, President Xi Jinping's vision of national rejuvenation, a China that is predominant in Asia and a leading power globally in 2049. And then there are long-standing concerns about China's energy dependence on potentially vulnerable sea lines of communication and a desire to stand up new China-centric regional and international organizations.

Given BRI's enormous ambitions, even if many projects never deliver or fall through, it could still reshape the geostrategic and military landscape of the Indian Ocean Rim and Eurasia in at least six ways.

First, BRI will increase the demand for China to project military power abroad. As Chinese investment and workers flow into far-flung and sometimes unstable regions of the world, the demand for the PLA to conduct noncombatant evacuations, humanitarian assistance and disaster relief operations, and counterterrorism missions will grow.

So will the demand on the PLA Navy to protect the sea lines of communication. In turn, BRI will reinforce the voices within the PLA calling for more investment in power projection capabilities although the preferences for what form this investment takes will likely differ by service.

Second, BRI will enable China to more effectively project power overseas. The dual-use infrastructure that China constructs through BRI such as ports and airfields can serve as building blocks for a more robust logistics network that enables the PLA to deploy more regularly and at a larger scale into the Indian Ocean and beyond.

Djibouti is a case in point where China initially built a commercial port and subsequently secured agreement from the Djiboutian government for a nearby military facility.

Third, BRI will enhance China's diplomatic leverage. In offering loans to countries at a level beyond their ability to repay, China has created debt traps that translate into financial leverage and permanently unequal diplomatic relationships. This gives China an opening to parlay dual-use infrastructure constructed by its investment into future military facilities. It could also enable China to compel indebted countries to support its larger agenda on issues such as maritime disputes in the South China Sea or in international forums like the United Nations.

Fourth, BRI will complicate U.S. military operations. The expansion of the PLA's presence that BRI both accelerates and enables will pose new challenges for how the U.S. military operates. In peacetime the United States and China will operate in close proximity, not only in new locations such as the Indian Ocean but also in new ways, such as conducting missions from bases in Djibouti that are less than ten miles apart.

To the extent that BRI paves the way for China to station its submarines in the Indian Ocean, it will increase the undersea threat to U.S. warships operating there.

Lastly, China could ultimately seek to deploy destabilizing military capabilities such as long-range anti-ship missiles in the bases or military facilities that BRI enables. This would create on a small scale the type of anti-access and aerial-denial challenge that currently confronts the U.S. military in the Western Pacific.

Fifth, BRI will bolster China's digital influence. Digital infrastructure has emerged as a major element of BRI and could pose a unique set of challenges as Chinese companies have few qualms about exercising censorship, eroding online privacy or intercepting trade secrets at the behest of the government in Beijing.

China could potentially glean large amounts of data from the digital infrastructure constructed by BRI. This data could fuel China's AI industry and also give its companies a potential edge in engaging consumers in markets across Eurasia and the Indian Ocean Rim.

Sixth, and finally, BRI will weaken European cohesion on China. The European Union's leadership has displayed a cautious approach toward BRI, but states in Central and Eastern Europe are eager for Chinese investment, creating frictions. Chinese investment into Central and Eastern Europe, though not always large, has already translated into diplomatic leverage.

And BRI will likely reduce Europe's capacity to function as a unified actor, certainly a unified partner in any American response to address not only BRI but also China's larger mercantilistic trade and investment practices.

I now want to turn to some guidelines for how the U.S. responds to BRI, recognizing that ultimately this must be in the larger context of a positive strategy for sustaining a rules-based international order.

There are at least six major elements. The first is avoid a purely confrontational approach. The United States should learn the lessons of its failed opposition to China's Asian Infrastructure Investment Bank. Countries need new sources of investment. They will not reject something for nothing.

Second, the U.S. must offer a positive vision, one that advances a vision of high-quality physical and digital infrastructure, linking together Africa, Asia, the Middle East and Europe in shared growth and preparation for the economy of the future.

This vision should include China. The U.S. should also leverage its strengths such as entrepreneurial models of growth that don't saddle countries with debt and actually build their local capacity over the long-term.

The third element is to place U.S. allies and partners at the center. This, of course, applies to a competitive American approach toward China more generally but certainly with respect to BRI.

The United States alone cannot effectively respond to BRI given the Initiative's vast geographic scope and the resources that China has dedicated to it. The United States should seek to incorporate key allies and partners into the planning and execution of strategy toward BRI, recognizing that this may make it more complicated. U.S. allies and partners certainly have different perspectives as I imagine you'll hear in the next panel, but it's essential for the long-term success of any American approach.

The fourth element is that the United States needs to try to shape Chinese overseas basing. In the context of BRI, the United States and its allies and partners should identify where a Chinese military presence would be most destabilizing and take action to prevent it or at least mitigate the consequences.

It's imperative to communicate to governments considering military access for the PLA, what it might mean for their sovereignty, as well as some of the destructive military capabilities that Beijing might transfer and that could cause real challenges down the road.

The fifth element is to ensure the U.S. military can operate in anti-access and area-denial environments. Ultimately, a U.S. military designed to fight and prevail in the Western Pacific will be able to handle the comparatively modest anti-access and area-denial capabilities that China might deploy to future facilities overseas. So that is important to keep in mind.

And then, finally, six, the United States should focus on digital infrastructure. U.S. companies have a comparative advantage in the digital domain. And the potential implications of the information technology dimension of BRI are the most uncertain and potentially very consequential over the long term.

The United States and its allies and partners should consider launching a digital development bank that would specialize in digital infrastructure across the Indian Ocean Rim and Eurasia.

To conclude, now is the time to develop a strategic response to BRI in the larger context of sustaining a rules-based international order. In the absence of a coordinated approach that brings together the United States, its allies and partners, large parts of the Indian Ocean Rim and Eurasia could ultimately become the core of a new China-centric order.

Thank you.

PREPARED STATEMENT OF DANIEL KLIMAN
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January 25, 2018

Testimony before the U.S.-China Economic and Security Review Commission

The Geostrategic and Military Drivers and Implications of BRI

Daniel Kliman, Senior Fellow, Asia-Pacific Security Program
Center for a New American Security*

Commissioner Shea, Commissioner Tobin, thank you for the opportunity to testify before this distinguished commission on "The Geostrategic and Military Drivers and Implications of BRI."[1]

I commend this commission for convening a daylong hearing on different aspects of China's Belt and Road Initiative, or BRI. My testimony will focus on the geostrategic and military drivers and implications of BRI, while also touching on the larger elements of an American strategy intended to shape BRI to align with international rules and norms, cooperate selectively with China, and compete smartly where required.

What is BRI, and Why Does It Matter

China is making a trillion-dollar play to shape the economic and geopolitical future of the Indian Ocean rim and Eurasia. Unveiled by Chinese President Xi Jinping in the fall of 2013,[2] what has since become known as the Belt and Road Initiative (though still sometimes referred to as "One Belt, One Road") is a long-term effort by Beijing to link together parts of Asia, the Middle East, Africa, and Europe through building ports, rails, roads, pipelines, and telecommunications networks, and other types of infrastructure.

Geographically, BRI covers countries representing 65 percent of the world's population and one-third of its economic output. China plans to spend a trillion dollars in support of the initiative, which at present encompasses two major parts: a "21st Century Maritime Silk Road" stretching from Southeast Asia across the Indian Ocean into the Mediterranean Sea; and, a "Silk Road Economic Belt" extending across Eurasia with branches terminating in Pakistan, Europe, and potentially additional locations.[3] A "Digital New Silk Road" that

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* The views presented in this testimony are Daniel Kliman's alone and do not represent those of CNAS or any other organizations with which he holds an affiliation. He wishes to thank CNAS colleague Melodie Ha for conducting research in support of this testimony. CNAS is partnering with the Sasakawa Peace Foundation (SPF) on a project focusing on how the United States and its allies and partners should respond to China's Belt and Road Initiative (BRI). Other entities with a general interest in BRI, such as the U.S. Government, the Government of Japan, and various U.S. corporations, are supporters of CNAS. A full list of CNAS supporters and the Center's funding guidelines can be found at https://www.cnas.org/support-cnas/cnas-supporters.

overlays both the maritime and land corridors with communications technology infrastructure may eventually become a third major part of BRI.[4]

The primary drivers behind BRI ultimately relate to China's domestic economy: the need to relieve surplus industrial capacity, the imperative to promote economic growth in China's underdeveloped regions through greater international connectivity, and the ambition to transform state-owned enterprises into globally competitive companies. Yet BRI also reflects several geostrategic and military considerations. First and foremost is President Xi Jinping's vision of national rejuvenation –a China predominant in Asia and the leading power globally by 2049.[5] Longstanding concerns about China's energy dependence on vulnerable sea lines of communication as well as a desire to stand up new China-centric international organizations also motivate BRI.[6]

Despite some recent high-profile setbacks to several BRI projects,[7] China at present retains the initiative. And the United States should neither underestimate China's ability to implement the vision articulated for BRI nor downplay the appeal of BRI to countries in dire need of investment in physical and digital infrastructure. In late 2013, a lack of imagination prevented the United States from anticipating the scope and consequences of Beijing's land reclamation in the South China Sea, delaying a timely and vigorous response. By comparison, BRI is unfolding over a far larger land and maritime expanse, and could have more sweeping consequences for the United States.

Geostrategic and Military Implications of BRI

Given BRI's enormous ambitions, even if many projects never fully deliver or fall through, it could still reshape the economic and geopolitical landscape of the Indian Ocean rim and Eurasia. Key geostrategic and military implications include:

Accelerating the Demand for Chinese Power Projection. BRI increases China's need to project military power abroad. As Chinese investment and workers flow into far-flung and sometimes unstable regions, the demand for the People's Liberation Army (PLA) to conduct noncombatant evacuations, humanitarian assistance and disaster relief (HA/DR), counter-terrorism missions, and other activities that Chinese strategists call "military operations other than war" will grow.[8] So will the demand on the PLA Navy (PLAN) to protect sea lines of communication that connect the major nodes of the "21st Century Maritime Silk Road."[9] In turn, BRI will reinforce voices within the PLA calling for more investment in capabilities to project power abroad – though preferences for what form this investment takes will likely differ by service.[10]

Facilitating the Supply of Chinese Power Projection. Expanding the PLA's presence overseas will require a dedicated logistics network that goes beyond "pit stops" at commercial ports. The dual-use infrastructure that China constructs through BRI – such as ports and airfields – can serve as the building blocks for a more robust logistics network that enables the PLA to deploy more regularly and at a larger scale into the Indian Ocean and beyond.[11] Djibouti is a case in point, where China initially built a new commercial port and subsequently secured agreement from the Djiboutian government to construct a nearby military facility.[12]

Enhancing China's Diplomatic Leverage. China's lending practices associated with BRI at times deviate from global standards. In offering loans to countries at a level beyond their ability to repay, China has created debt traps that translate into financial leverage and permanently unequal diplomatic relationships. This in turn gives China an opening to parlay dual-use infrastructure constructed by its BRI investments into future military facilities that could provide a basis for projecting power in ways that go well beyond conducting non-combatant evacuations and counter-piracy.[13] It also could enable China to compel indebted countries to support its larger geopolitical objectives on issues such as maritime disputes in the South China Sea and in multilateral forums like the United Nations.

Complicating U.S. Military Operations. The expansion of the PLA's presence overseas that BRI both accelerates and enables will pose new challenges for the U.S. military. In peacetime, the United States and China will operate in close proximity, not only in new maritime locations such as the Indian Ocean, but also in new ways, such as conducting missions from bases in Djibouti that are less than 10 miles apart,[14] increasing the possibility of accidents in a space that the "Rules of Behavior for Safety of Air and Maritime Encounters" concluded by the U.S. Department of Defense and China's Ministry of National Defense in 2014 likely does not cover.[15] To the extent that BRI paves the way for China to station its submarines in the Indian Ocean region,[16] it will increase the undersea threat to U.S. warships operating there. Lastly, China could ultimately seek to deploy destabilizing capabilities such as long-range anti-ship missiles to the bases or military access points that BRI facilitates. This would create on a small scale the type of anti-access and area-denial (A2/AD) challenge confronting the United States in the Western Pacific, and elevate the risk to U.S. naval assets in the event of conflict.

Improving China's Energy Security. Roughly 80 percent of China's oil imports pass through the Strait of Malacca.[17] BRI presents China with an opportunity to improve its energy security over the long term through creating a web of pipelines and ports that bypass this potential maritime chokepoint. Key projects include the China-Pakistan Economic Corridor (CPEC), which will allow China to transport Middle East oil from Gwadar to its western provinces, as well as a trans-Burma oil pipeline.[18] Coupled with a growing PLA presence in the Indian Ocean, these new pipelines and ports will likely give Chinese leaders greater confidence in their ability to weather a maritime economic blockade in the event of a conflict.

Bolstering China's Digital Influence. International attention has primarily focused on China's efforts to build roads, rails, and ports across the Indian Ocean rim and Eurasia, yet digital infrastructure has emerged as a major element of BRI. Beijing has begun including communications connectivity in its investment plans. Digital infrastructural investment by China could pose a unique set of challenges, as Chinese companies have few qualms about exercising censorship, eroding online privacy, or intercepting trade secrets at the behest of the government in Beijing.[19] Moreover, in its Next Generation Artificial Intelligence Development Plan, China has announced its intent to "accelerate the broad application of AI technologies in countries along the 'One Belt, One Road.'"[20] China could potentially glean large amounts of data from the digital infrastructure constructed by BRI. This data could help to fuel China's AI industry, and also give its companies a potential edge engaging consumers in markets across the Indian Ocean rim and Eurasia.

Antagonizing India – and Irritating Pakistan. BRI has amplified longstanding Indian concerns about Chinese encirclement. India has objected in particular to CPEC, which runs through Kashmir, territory that both it and Pakistan claim. For India, the development of the Gwadar port – a flagship project of CPEC – also raises the prospect of a Chinese military foothold along its western approaches. As Indian anxieties about BRI have increased, it has accelerated efforts to strengthen ties with the United States and Japan. From a U.S. perspective, this development reinforces regional stability; viewed from Beijing, it fuels fear of regional containment. While antagonizing India, BRI has also begun to create irritations in the China-Pakistan relationship. China has brought its own workers and companies into Pakistan, doing comparatively little to build local capacity. And China has at times attempted to impose strict conditions on lending that would undermine Pakistani sovereignty.[21] Over time, BRI could make China an increasing target for local antipathy in Pakistan, perhaps reducing the level of popular dislike directed toward the United States.

Weakening European Cohesion. Chinese investment into Europe associated with BRI has exacerbated existing divisions pitting Western European states and Brussels – the seat of the European Union (EU) – against the less wealthy countries of Central and Eastern Europe. The EU's leadership has displayed a cautious approach toward BRI, underscoring that it must "adhere to a number of principles including market rules and international standards."[22] However, states in Central and Eastern Europe have embraced BRI, and in Hungary's case, may have ignored European public tender requirements when awarding China with a high-speed railway contract. Chinese investment into Central and Eastern Europe has also translated into diplomatic leverage, rendering European unity on key questions like how to manage China's investment in high-technology industries more challenging. Overall, BRI will likely reduce Europe's capacity to function as a unified partner in any American response to address China's mercantilist trade and investment practices.[23]

The United States and BRI

The United States has yet to develop a coherent strategy toward BRI. During President Obama's tenure in the White House, BRI occupied a minor place in the hierarchy of issues that made up U.S. China policy. Other issues dominated the Obama administration's focus on Beijing. On the cooperative side, addressing climate change, promoting global economic development, and ensuring support for UN Security Council sanctions against Iran received priority. On the competitive side, countering Beijing's construction and subsequent militarization of artificial island outposts in the South China Sea absorbed the attention of senior officials. Consequently, the Obama administration never formalized a view of BRI. Even so, its commitment to strengthen regional connectivity – as manifested in multiple initiatives spanning Central, South, and Southeast Asia – and drive to boost U.S. investment across the Indo-Pacific functioned as a de facto response.

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Although the Trump administration has yet to unveil a systematic response to BRI, it is clear that over the coming years, BRI will occupy a comparatively prominent place in U.S. policy toward China on the competitive side of the relationship. Senior administration officials including the Secretaries of State and Defense have publicly criticized BRI.[24] President Trump has yet to directly address BRI in public remarks. However, in his speech at the APEC CEO Summit in November 2017, he delivered a thinly-veiled critique, calling for alternatives to "state-directed initiatives that come with many strings attached."[25] Without referencing BRI by name, the Trump administration's new National Security Strategy acknowledges a "geopolitical competition between free and repressive visions of world order taking place in the Indo-Pacific region," calling out China's role in using economic inducements and infrastructure investments to pursue its geopolitical aspirations.[26]

The Trump administration has started to sketch out limited elements of a U.S. approach toward BRI. At the APEC CEO Forum in November, President Trump announced that the United States would reform its development finance institutions to create new incentives for private sector investments. He has also urged international financial institutions (IFIs) to dedicate greater resources to large-scale infrastructure projects.

Thus far, the most promising aspect of the Trump administration's evolving response to BRI is growing cooperation with allies and partners. During the president's November trip to Asia, his administration announced that the U.S. Overseas Private Investment Corporation (OPIC) would join with Japanese partners "to offer high-quality United States-Japan infrastructure investment alternatives in the Indo-Pacific region."[27] Moreover, BRI appears to have been a topic of discussion in recent senior level meetings with India, as well as the revived US-Japan-Australia-India four-way talks, also known as the Quad.[28] Overall, the Trump administration appears inclined to develop a robust strategic response to BRI. Yet whether the Trump administration can fully execute a response to BRI is uncertain given its budgetary priorities and predisposition against multilateral organizations.

Guidelines for a U.S. Strategic Response

Ultimately, a U.S. response toward BRI must occur within the larger context of a positive American strategy to sustain the rules-based international order that since the end of World War II has underpinned global peace, prosperity, and democracy expansion. Recognizing this, the United States should seek to shape BRI to align with accepted international norms and standards; pursue opportunities for selective cooperation with China; and compete where required.

The following guidelines provide a basis for developing a U.S. response to BRI:

Avoid a purely oppositional approach. The United State should learn the lesson of its failed opposition to China's Asian Infrastructure Investment Bank (AIIB): countries need new sources of investment, and are unlikely to be persuaded that they should reject additional opportunities for economic development based on abstract arguments over international principles. BRI fills a void left by traditional international financial institutions. Moreover, BRI's activities run the gamut from predatory lending to investments that would pass muster under global norms. BRI is not a monolith, and treating it as such will make it more difficult to impose necessary scrutiny on those investments that deserve careful review.

Offer a positive vision – one that includes China. The United States should advance an affirmative vision of high-quality physical and digital infrastructure linking together Asia, Africa, the Middle East, and Europe in shared growth and preparation for the economy of the future. Washington should emphasize that development financing should expand opportunities – not constrict national choices through unsustainable debt or degrade national sovereignty through terms that ultimately compel countries to cede control of critical infrastructure. American officials should articulate that they welcome a more connected Indian Ocean rim and Eurasia in which China serves as one of multiple major nodes in a network of physical and digital infrastructure constructed not only by China, but also by a diverse set of states.

Place U.S. allies and partners at the center. The United States should seek to incorporate key allies and partners into the planning and execution of a strategy toward BRI. Their interests and concerns should inform and undergird a U.S. approach, not least because the United States alone cannot effectively respond to BRI given its vast geographic and financial scope. When identifying the most promising countries to involve in this effort, the United States should focus on allies and partners with sufficient resources and stature to chart their own approach toward BRI regardless of Chinese economic inducements or coercion. Here, Japan, India, Europe, Australia, and Saudi Arabia stand out. This collection of allies and partners will naturally have different perspectives and equities when responding to BRI, and the United States should provide a platform to facilitate information exchange and an alignment of approaches where possible.

Shape Chinese overseas basing. With BRI both accelerating and enabling the PLA's operations abroad, the United States and its allies and partners should identify where a Chinese military presence would be most destabilizing and take action to prevent it or at least mitigate the consequences. For the United States, this will likely mean focusing more on BRI investments along the Indian Ocean rim than those in Central Asian states. The United States and its allies and partners should convey to countries considering granting China military access the potential consequences for their sovereignty, as well as types of PLA capabilities that would prove most disruptive. Congressional Delegations could play an important role in communicating these concerns to political decision makers in states where China is pursuing military access.

Ensure the U.S. military can operate in A2/AD environments. To the extent that BRI eventually paves the way for a network of overseas Chinese military facilities that feature some offensive capabilities, the United States could in the future confront on a limited scale the type of A2/AD challenge that today defines the Western Pacific. It is therefore essential that the Department of Defense (DoD) continues to invest in new capabilities and develops new operational concepts that will allow U.S. forces to effectively operate in A2/AD environments. A U.S. military designed to fight and prevail in the Western Pacific will be able to handle the comparatively modest A2/AD capabilities that China might deploy to future facilities in the Indian Ocean. Congress can play an important role in ensuring that the DoD maintains an adequate focus on the force modernization required to prepare the U.S. military to operate in a highly contested environment.

Focus on digital infrastructure. U.S. companies have a comparative advantage in the digital domain, and the potential implications of the information technology dimension of BRI are most uncertain – and potentially most consequential over the long term. The United States and its allies and partners should consider launching a Digital Development Bank that would specialize in digital infrastructure and ensure that countries in the Indian Ocean rim and Eurasia have alternatives to a Faustian digital financing bargain with China.

In recent years, ambitious Chinese initiatives have too often caught the United States flatfooted. Now is the time to develop a strategic response to BRI. In the absence of a coordinated approach that brings together the United States and its allies and partners, large parts of the Indian Ocean rim and Eurasia could become the core of a new China-centric order in which many states have little choice but to follow Beijing's lead.

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[1] This testimony draws on Daniel Kliman and Harry Krejsa, "Responding to China's Belt and Road Initiative," CNAS Commentary, November 13, 2017, https://www.cnas.org/press/press-note/cnas-commentary-responding-to-chinas-belt-and-road-initiative; and Daniel Kliman and Manpreet S. Anand, "Expanding U.S.-India Geoeconomic Cooperation Amid China's Belt and Road Initiative," *Asan Forum,* December 23, 2017, http://www.theasanforum.org/expanding-us-india-geoeconomic-cooperation-amid-chinas-belt-and-road-initiative/#3.

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[13] Bhrama Chellaney, "China's Creditor Imperialism," *Project Syndicate,* December 20, 2017, https://www.project-syndicate.org/commentary/china-sri-lanka-hambantota-port-debt-by-brahma-chellaney-2017-12.

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PANEL II QUESTION AND ANSWER

HEARING CO-CHAIR SHEA: Thank you, Dr. Kliman and thank you, Dr. Ratner.

[Prepared remarks of Dr. Joel Wuthnow follow:]

HEARING CO-CHAIR SHEA: Time for questions. Chairman Cleveland.

CHAIRMAN CLEVELAND: I have a question for each of you. Mr. Ratner, you described the term burden-shifting, which I think is interesting, and you said that you thought that we should unilaterally--you may have used the word "force,"--compel, urge, encourage China to assume the burden of security responsibilities. Can you describe where you mean that because it's kind of a departure from what I would think of in terms of where I'd want China positioned?

And then the second issue--I'll turn to the second issue after you respond to that.

DR. RATNER: Well, I guess a generic point and a specific point. The generic point is we should take a hard look at looking where we feel like as it relates to security and stabilization, we are overextended. Look at where China's interests are emergent and intensifying and where we think that their perception or conception of what they would want is at least with the bounds of something that we wouldn't consider a major national security threat anyway.

So if one were to draw that, I think the first place I would look would be Afghanistan. I think the fact that the United States is spending billions of dollars to build up the Afghanistan military and secure that country when it is surrounded by a whole region that has vital security interests there, and we are bearing the diplomatic and military and human costs of that alongside the Afghan people is quite extraordinary.

And I think Beijing has shown that it has more interests there. There were reports in the last several weeks that they were setting up--it's unclear exactly--but something along the lines of some facilities in eastern Afghanistan, and I think the United States should think seriously about talking to but also telling partners in the region, including working through the Shanghai Cooperation Organization, but directly to Beijing, that there are parts of Afghanistan that they will be responsible for stabilizing at Year X.

Whether it's one year or two years or three years from now, I would defer to the military commanders about how much time it would take to appropriately withdraw U.S. forces, but I think that's the kind of mentality we need to be in rather than sinking again tens of billions of dollars into Afghanistan while China literally works around it to undermine the liberal order and impose their own interests.

CHAIRMAN CLEVELAND: You do remember when we suggested this previously, and their interest was in protecting a, I think it was a copper mine. It was some investment that they had, and that was the limit of their interest in this issue. So I think it's an interesting--it presents an interesting question in the moment.

Dr. Kliman, would you describe a little more--I like the term "debt trap," and as you may have heard this morning, I'm very interested in sort of the terms of loans that are being extended by the various Chinese policy banks, and how there is a presumption, I think, baked in of risk because they see that this isn't just a financing mechanism. It's an opportunity to secure assets in the event that the loan doesn't pay off exactly the way they envision.

So if you could describe some of the--perhaps some examples of where you see this risk of a debt trap and what the implications are?

DR. KLIMAN: Absolutely. I want to, before answering that, take a step back, and I think it's important to keep in context the criteria by which some of these investments were made, and they're not necessarily pure kind of return on investment, but there also are certainly geopolitical considerations.

So even if China doesn't make significant returns on investment, it gives it long-term leverage over a country, particularly one with some strategic geography, that may be a net win.

To give you a few very concrete examples. One that is often raised, of course, is Sri Lanka where over time China rapidly built up certainly Sri Lanka's share of debt that was owed to Beijing and was ultimately able to essentially parlay the Hambantota port in the southern part of Sri Lanka into a 99-year lease. India ultimately was able to come and take a kind of nearby airport and make a financial bid so China did not get both the airport and the port. But that's kind of one key example.

Djibouti is another where you saw rapid increase in Chinese debt over time. China, of course, built the commercial port and then was able to build a military facility as well. So two countries, again, where you've seen significant debt and then, at least in one, there has already been a military facility opened in Sri Lanka. Obviously we'll see where that goes.

CHAIRMAN CLEVELAND: Can I pause you on this? Do you think--I mean Burma and Kyaukpyu comes to mind in terms of the trade for the dam if that was what actually transpired. Do you think that there is a conversation about we're going to put this money on the table to build this facility, and if it works, it works, if it doesn't, it doesn't because we can then leverage it? I mean do you think this is a calculated kind of commercial, political, security decision, or do you think it's accidental?

DR. KLIMAN: I would think it's--I don't know on a case-by-case basis. I would imagine some of this is simply incentivized for Chinese firms to go out and make these investments and call it Belt and Road.

I think there certainly is a logic behind it that although these may not always pay off commercially, there may be a geopolitical payoff. I personally don't have the insight into kind of the decision-making that happens in these particular investments if there is a sort of let's know that there's not going to be any commercial payoff, but we'll get something geopolitical in return.

I would say it's probably not seen as a negative for leadership in Beijing, but whether there's kind of a calculus that's very deliberate, I wouldn't know.

CHAIRMAN CLEVELAND: Okay. Thank you. I'll follow up.

HEARING CO-CHAIR SHEA: Okay. Thank you both.

I have two questions which hopefully both of you could take a shot at answering if you like. The first question deals with something you touched on in your testimony, Dr. Ratner: Russian-Chinese competition in Central Asia. And many of these countries obviously were former Soviet republics and are in many respects culturally Russian.

So my very high-level simplistic sense is that the Russians have ceded the economics to China in the Central Asian republics but have not ceded the security sphere, and the Chinese are careful about not offending Russian sensibilities on the security side. So I'd like you to react to that.

And the second question is something that you said, Dr. Kliman, that triggered a thought, the Malacca Dilemma. We hear that a lot of the BRI initiatives are the pipelines from Russia, from Burma, from Central Asia are designed to solve or mitigate the Malacca Dilemma.

But my sense is that they need so much oil, they need so much natural gas, that the Malacca Dilemma will never be resolved through overland pipelines from Russia, Burma, Central Asia. I'd like you to, I'd like you to comment on that.

DR. KLIMAN: Happy to go first on that. So in terms of will BRI mitigate the Malacca Dilemma, I would generally agree, I think at best partially, just given the sheer volume of oil, and, yes, China can build ports and pipelines and overland routes in places like Burma or Pakistan.

My view would be that it at least provides--it would, it makes any kind of U.S. military operations potentially more challenging where there are more areas that would require focus in terms of the maritime domain, and so it does, in that sense, complicate a little bit, but it's not going to necessarily kind of wean China off kind of the Malacca Strait.

Probably at the end of the day, China's best bet is the kind of clean energy investments they're making now, which over the long-term are designed to make their economy less reliant on oil writ large, whether it's imported from sort of ports in Burma or through the Malacca Strait.

HEARING CO-CHAIR SHEA: Thank you.

Dr. Ratner.

DR. RATNER: Yeah, I would generally agree with that point. I think the diversification of China's energy sources have been long underway prior to BRI, and it has an economic logic to it and otherwise. I think they're looking to alleviate sources of vulnerability, and this won't resolve, but it is part of that.

But it also goes to the earlier point that I made that what, again, from a purely military perspective what matters or not is if the United States can menace the People's Liberation Army in East Asia and in the South China Sea, and whether the closing of the Malacca Straits affects their energy security may matter on the margins in a long-term military conflict, but what we are at risk of here and what the United States government should be focused on is preventing China from pushing out a sphere of influence and effective control over certainly the South China Sea, if not other parts of their eastern littoral.

So I think that's the real challenge, and again if you believe what Secretary Mattis said last Friday, that military advantage is eroding, and that will be much more--whether the United States can and is willing to fight will ultimately be what matters here and not whether China is going to be willing to pull or able to pull energy through the Malacca Strait. But I think it is part of an overall vulnerability mitigation strategy.

As it relates to the Russia question, this is a good example of where the BRI piece of this is part of a much larger question about how does the United States think about its strategic competition with China and where does Russia play into that, and how do we think about mitigating the potential for Russian-Chinese collusion, which exists already, which I think will only happen if we force those two together because they do have shared interest, but they're not natural allies.

And I think this is a reason why again just thinking practically about recommendations, to the extent that the United States can shed light on the types of activities that are actually involved in BRI, I think that can be a useful way to ensure that the Russians are on the right side of this and in an area where I think the U.S. government would be, which would be not wanting to see undue Chinese influence rather than seeing Chinese partnership in this.

So I think shining a light and the transparency is really important, not only for the recipient countries but for some of these strategic dynamics as well.

HEARING CO-CHAIR SHEA: Okay. Thank you.

Dr. Tobin.

HEARING CO-CHAIR TOBIN: Thank you very much. Thank you, gentlemen.

I'm going to approach my questions--I have three for you, Dr. Ratner, and I think on a second round, I have several specific for you, Dr. Kliman, and I'm sure we'll have enough time this morning.

So, Dr. Ratner, your recommendations for U.S. policy were, I felt, outstanding, and I want to give you an opportunity to orally tell us a little bit more about three of them, please.

You just mentioned the one about rebuild institutions for U.S. information operations so that we can lay out the facts and the fictions of the Belt and Road Initiative to make people who are receiving some of these potential--what would you say--opportunities from China better understand what's going on.

So I'd like you to just spin that out a little bit more. Tell us how it would work, what the United States could do, could one, two, three be set up? Who would run it? That's the first piece.

The second piece is shortly after that you mentioned capacity-building for recipient countries, and there you talked about establishing something that could be quite straightforward, a clearinghouse of best practices or a forum to assess BRI projects. If you could talk about that.

And lastly, TPP. As you know, both sides of the aisle have in the last political years have pulled away from that. How would you urge the United States players to consider rejoining or reshaping or will it make sense at all?

Thank you.

DR. RATNER: Great. Thank you.

Those are all terrific questions. On the question of U.S. information operations, to be concrete, the Broadcasting Board of Governors has started a 24/7 cable news Russian channel that has a very significant social media platform as well. As I understand it, during the Iran protests, Voice of America and the Broadcasting Board of Governors, some of their platforms were some of the most viewed in the world, including in Iran and in China.

So they are, in my view, having seen a presentation on this recently, I was, I shouldn't say surprised, but happy to see how sophisticated they were in terms of the people who were in charge there. They're real communication specialists. They're thinking hard about how to use data and who their audiences are, and this has been--this effort is focused at broadly addressing the issue of Russian information operations and misinformation operations around the world.

Obviously we have that problem here in the United States. That's not their writ. But they have been, I think by their account, quite effective in the information space as it relates to Russia, and we ought to be doing the same as it relates to China because China has an even more sophisticated, I think, and even more comprehensive set of information operations and systems around the world, and again the story of that, those information operations, is China's ascendant, China is the future, America is a mess, and the United States is in decline, and so you better get on our side or you're going to pay for it.

And I think the reality is obviously much more complicated than that, and my understanding is the White House is in discussions with the Broadcasting Board of Governors to think about what is a China element to this, and you all ought to do what you can to support that.

HEARING CO-CHAIR TOBIN: So would it be expanding their current charter or is it within their charter as far as you know?

DR. RATNER: It's within their charter. It would be more resources dedicated to I think areas of, areas where we have concern about illiberal Chinese influence, and the goal would be to provide objective news, either in local language or in Chinese language as well. So I think that's something we could do.

Along with that, I would argue that the public affairs and public diplomacy parts of our bureaucracy have atrophied certainly since the end of the Cold War. But we have very capable people working in the public affairs bureaus and the Under Secretary for Public Diplomacy at the State Department, but I think if you were to go and look at their activities, it's a lot of soft people-to-people social programs that aren't integrated with strategic communications is how we would think about it.

And so it would be useful for--I think this would have to be a White House-led effort, but to the extent that we use the term "strategic communications" within the White House, it's not just about what the President is going out and saying. It's about coordinating strategic messaging that's professional and driven by people who understand these things, not necessarily someone who has just come from their latest job at an embassy doing political work, but a real communication specialist coordinating messages, getting them to the right people, and using our public affairs offices at the Pentagon and the State Department to their full effect.

So I think there's a lot of work to be done there. I think frankly the administration is aware of this, and they're focused on it, but it will take more resources and it will take better interagency coordination than we've seen to date. So that's on that point.

On the second, the issue of capacity-building for recipient countries, I think, I guess one area where I would take a slightly different approach than Dr. Kliman in terms of his assessment of the AIIB. I wasn't in government at the time so I'm not saying this to defend what the Obama administration did.

But you could argue that was a diplomatic failure because the United States was left on the outside looking in, had a lot of egg on its face as its partners flocked to the AIIB.

On the other hand, the types of issues that say the liberal industrialized countries were urging China to take on, they largely did. They diluted their shares due to international pressure. Their projects, that actually the influence of the bank and the number of projects they've done have moved more slowly than I think they would like because they're adhering to higher standards that others imposed upon them.

So I think that's an important lesson insofar as Beijing's efforts can be shaped in this regard with sufficient international coordination and international pressure. So there's a case maybe Washington and the administration didn't handle it as well as they could have, but the end result was largely where we were hoping.

And I think the same could be done with BRI if organizations like the G7 I think would be a place to have these conversations. Some of the larger ASEAN organizations, the East Asia Summit potentially, certainly within the U.S.-ASEAN summits that we hold annually, as well as the Quad, the newly revised Quad mechanism between the United States, Japan, Australia and India.

I think all of these are places where groups can get together, get the experts together, and have a set of, again, as I described it and as you described it, best practices or a place where human capital can be provided from--to look at some of these deals.

I will say part of the problem, of course, is that some of these recipient countries for their own political and economic reasons will want to go ahead with these projects whether they're economically viable or not.

HEARING CO-CHAIR TOBIN: Yeah.

DR. RATNER: So this isn't a fail-proof solution and it's not as if the recipient countries are the saints and the Chinese are always the antagonists here. So I think that's--

HEARING CO-CHAIR TOBIN: But it is a voice.

DR. RATNER: It's not 100 percent solution.

HEARING CO-CHAIR TOBIN: Yeah.

DR. RATNER: But, again, it's important.

As relates to the TPP question, it's very hard, you know. It will, I think it will honestly take strong leadership from American politicians to make the case that, number one, again, we are in a consequential strategic competition with China that it will down the road affect the wealth and security and prosperity and freedom of the American people and their children and their grandchildren in subsequent generations if we don't get serious here.

And that that is the lens through which we should look at the Trans-Pacific Partnership, and if there are negative externalities as it relates to opening our markets, there are ways that we can deal with that through domestic policies, and there are people looking at that, and free trade, I think it has been assessed certainly from now going forward is not the answer here. And, in fact, setting higher standards is standing up for the American people, and, frankly, as a Democrat, quite disappointing to see Democrats make a progressive--I know this isn't a partisan commission--but to see Democrats making an argument against what was largely a progressive deal that would have raised standards for women and children and the environment higher than 50 years of American diplomacy will do on its own waving its hand and through the USAID.

So I think there is a case to be made. It will take political leadership, and it will take a larger sense of the meaningfulness of the strategic competition with China.

Just the last thing I'll say on this is that obviously the Trump administration has elevated the issue of China's unfair trade practices to the front burner, and I think we've already seen the solar panels case decided upon. Steel and aluminum are coming down the pike. And the then the 301 case as it relates to intellectual property and other unfair practices I think will be coming next.

We can play defense all we want. The way you solve those problems is by working with your partners to set standards around some of those issues, and that's what TPP was. So I think there is enough strategic logic and economic logic and otherwise that if the domestic politics can be alleviated through other programs that TPP still makes all the sense in the world.

HEARING CO-CHAIR TOBIN: Thank you very much.

HEARING CO-CHAIR SHEA: Commissioner Stivers.

COMMISSIONER STIVERS: Thank you. Thank you both for being here today and for your excellent remarks.

You both mentioned the need for--the tremendous need for a positive and you said comprehensive and competitive China strategy. I would modify that a little bit to make sure it's an Asia strategy. I think it's important.

And the policy options I think moving forward have to be both in the diplomatic and development components. I think we have a twofold challenge, and you both have worked in the administration, and I think you can shed some good insight on this. How do we bring this U.S. government together? You know, diplomacy and international development are two totally different disciplines, you know.

Diplomacy is focused on building stronger and positive relationships. Development is focused on saving lives and lifting people out of poverty and creating kind of the underlying prosperity and stability that we think is not only in the U.S. interests, but it's in everyone's interests.

But there's a real lack of overlap in those two worlds. Development, there's 15 government agencies that do development--more than that, I think. Most of them don't work in China. They don't--shouldn't work in China. They don't work in China, and they don't have China expertise in them.

And then you have a lot of the folks that, you know, they're experts on China that focus I think more on the security and trade realms. And so you really have this disconnect between two worlds where I think a lot of the solutions or the policy options to compete with China are actually in the development world, but I don't think those folks are thinking strategically about China. They're trying to save people's lives as they should be because that's their job.

So how, you know, how does the administration bring these worlds together, and then what's the role of Congress for that? I mean should there be a bill that, you know, that can create the strategy or mandate that the administration put this strategy together with these components?

Does there need to be something like a competing-with-China-influence fund where we provide the resources to countries in Asia to--on civil society, on these sorts of things that can push back on some of these things? So that's my first question.

My second question--I'll just throw this out there--is on the diplomacy side. You also can bring your allies and partners together on this, too, and, you know, should there be an economic component of the Quad? And how receptive are the countries of the Quad going to be to that, especially if it's seen as something that counters China? And do you think, have you seen in your work that they're moving in this direction or that's been on the table in the Quad discussions?

Who wants to start?

DR. KLIMAN: Great. I'm happy to take at least some of that on. All really great questions. In terms of bridging the divide between diplomacy and development, I would say my hope--we'll see if it plays out--is that the kind of elevation of long-term competition with China in this new national security strategy will trickle down. It's obviously incumbent on people at the White House to ensure that people, you know, all the different bureaucracies are socialized into that.

But that ultimately I think having a fairly clear guidance from the top on this is kind of U.S. strategy, we are competing with China, you should think of your activities in that context and not in a simply let's do good for the world although that's important. I think that will be at least useful.

One other piece is trying to encourage, and maybe there's a role for Congress in this, but trying to encourage more China expertise to go into places like USAID. It's often very hard to get people with China expertise into national security bureaucracies. They shockingly spend time in China often or have family backgrounds, and so it may be easier in some ways to open up the development space to folks who want to serve, and it may be hard for them to go into the kind of national security side of the government.

So I think there may be opportunities there to creatively bring more talent in, and if you can essentially be kind of building on the sort of supply side more China expertise in development, and then have the demand signal from the White House in national security strategy to help people understand that there is a competition, that may be positive.

Also, even in terms of budgets, I think right now everybody is trying to justify their budget, especially if you are in the development space. And so there may be a national tendency to grab onto competition with China, and so that may be a sort of positive externality of some of the what I would say are unfortunate proposed cuts. But it may drive people in that direction on the development side.

In terms of the role of Congress, it was a really interesting question you had about have a compete-with-China fund. You certainly could wonder whether there would be a way to create sort of a pool of funding across the U.S. government where ideas for competition, whether it was in the sort of information space or other kinds of creative opportunities, could almost like pitch each year ideas, and then that would be funded.

I think that would be helpful. Often there's a lot of ideas, but there's not sort of a body of funding that moves quickly, and so having sort of surge grants or surge funding could be very useful, especially trying to empower people on the front lines of U.S. foreign policy who will see opportunities but often there's no way for them to move funds around quickly enough to perhaps seize on the opportunities that present themselves.

In terms of the kind of economic cooperation with the Quad, I'll admit I'm a little bit skeptical in part knowing sort of several members of the Quad. U.S. bilateral economic cooperation with India, obviously there's a lot of long-term potential. It's an uphill slog. We still don't have a bilateral investment treaty.

It seems hard to imagine kind of with the configuration of those four you're going to get a lot certainly sort of more trade liberalization among the four. I think perhaps the more opportunity for the Quad if you look beyond sort of the hard security might be in more capacity building, even kind of development. Somebody is looking at how do you export models of entrepreneurial development and technology assistance. I mean to me that's much more feasible than perhaps sort of enhancing trade liberalization among those four.

DR. RATNER: I'll just take a quick, just a quick intervention, to say 100 percent agree on the Asia strategy. That's absolutely right. China strategy is Asia strategy, and often we get it the other way around to our own detriment. And, yes, comprehensive means diplomatic and economic and development, and I think the point I was trying to make earlier, we have to be firing on all cylinders to get this right, that if we think of the security challenges of BRI in a narrow military lane, we're not going to have the influence that we need and the resources and power to bend the curve on this.

The only other thing I would say in addition to what Dan said is I think there's a relationship between the diplomacy and the development. I think the other, perhaps the most, the more fruitful area, at least in the short term, is thinking about getting more China watching and more China expertise out of just the East Asia bureaus because we have things happening like when the Chinese flipped Panama on their diplomatic recognition of Taiwan and all of a sudden it's, well, who was--do we have a China watcher in our embassy in Panama City, and the answer is no.

And I think--and I know this is something that the last administration and the, particularly the policy planning they were thinking about, and they may have made some headway on, but we ought to have China experts in the places where these projects are happening, looking very closely and understanding what's going on. Because otherwise a lot of this is going to happen, and it's going to be too late before we realize what's going on.

HEARING CO-CHAIR SHEA: Thank you.

Senator Talent.

COMMISSIONER TALENT: I had a little trouble coming up with questions because there isn't a single thing either one of you said that I disagreed with. I just thought it was brilliant except I share a little bit of the skepticism about the risk-sharing piece, what you said, Dr. Ratner.

So I'm going to take this down a little bit different direction. It is very frustrating that there are so many things we could be doing that are well within our capabilities to do and we're not doing them. You mentioned the South China Sea, Dr. Ratner. That to me is the necessary but not sufficient condition of any successful policy. If we get pushed out of that area, it doesn't matter what else we do.

And I think one of the problems here--so now I put on my old hat, and I say to myself, you know, the difficulty with this is going back to Monett, Missouri or the Bootheel or Columbia or the south side of St. Louis city, and explain to people why it matters to them in terms that make a difference to them?

So you all have talked about the norm-based international order, and I completely get it and completely support it. But what would this mean to my former constituents in a real sense? If China succeeds in the national competition, overturns the norm-based international order, at least in Asia, what difference does it make? What could I say to them in terms of what does it mean for your pocketbook, your family's security?

And I know you can't be exact about this, but some reasonable speculation good enough for political purposes. You know, so what, how does it matter to them? Because I think if the people who normally sit around this dais can explain that, then we can get the kind of commitment that we need.

HEARING CO-CHAIR TOBIN: Yes. Good point.

DR. RATNER: Do you want to start?

DR. KLIMAN: Sure. We'll see if we can give you something to distribute, Senator.

[Laughter.]

DR. KLIMAN: If you look at, I mean it's interesting, if you look at the kind of dawn of the Cold War, there was a very deliberate effort by the Truman administration to sort of very much simplify and distill the Soviet threat in terms everyone could understand, sometimes perhaps even exaggerate aspects. So I don't think we want to go in that direction.

But in terms of how we could kind of distill it for the American people, in some ways I think we're at potentially the right time where we've loosely touched on some of the China kind of trade and investment challenges that this administration is beginning to take action on, and to me that speaks very much more kind of to people's pocketbook, and it's that do you want to live in a world where China doesn't play by the rules and your livelihood and those of your children are less versus a world in which all countries, including the U.S., play by the same rules, and your, kind of your labor will result in you get what you deserve as opposed to China kind of cheats, and ultimately it's going to harm you and your descendants?

And so I think the economic piece is maybe a little easier to sort of convey. I agree when we talk about a rules-based international order, it's more challenging.

I do think, though, aside from the economic piece, there's an important values component, and then ultimately at the end of the day, I mean this country stands for bringing dignity and certainly more choice and freedom to those beyond our borders and that the sort of world that China would look to construct would be very much one in which certainly the dignity of all people is not respected, that people have fewer choices about their own lives, and that you would see a very different and darker world, one in which our values that we've certainly championed for our country's existence are no longer moving forward but actually retrenching.

So I would say the economic piece perhaps is most compelling, but at least in my heart I would like to say that the values piece also will resonate.

DR. RATNER: Yeah, I'm just going to build on--Senator, it's a terrific question, and it's one that a lot of folks are talking about behind closed doors in Washington right now thinking about how do we make the case because generic statements about American leadership and liberal order are not going to be enough.

COMMISSIONER TALENT: And I should add I'm not accusing my people back in Missouri of just not getting it or something. I don't think we've ever explained it.

DR. RATNER: That's right. That's right.

COMMISSIONER TALENT: I mean I think when you explain it to them, I used to get in arguments because I was on the SASC, the Joint Chiefs of Staff, because they'd say, you know, the American people just won't support--yes, they will. But you have to explain what it means to them.

But I interrupted. Go ahead.

DR. RATNER: No, and that's right, and I think it's notable that the Rebalance to Asia was a marquee legacy policy of the Obama administration and he never spoke to the American people about it, whereas he went on how many times did he go on prime time and talk about Syria and Iraq and Afghanistan? So I think the communication of this from the very top all the way down, from you all sitting here, from members of Congress, from people who have the time to think and research about this, is really important.

To answer your question specifically, because I've thought a lot about this, and you get this challenge a lot--again, it's a group challenge, not otherwise--the answer in my mind is you got to start at the end and work backwards because the China challenge is so incremental and it's so multifaceted that any one piece of it is hard to wrap around your finger and tell you why it matters.

And so what you have to do is you have to put people in the future of a China-led order and make them understand what that looks and feels like and why they're not going to like it.

And Nadège Rolland, who was on the panel earlier here, she had a great monograph on the Belt and Road in which--actually, she has a full chapter dedicated to describing what Eurasia looks like--I don't know what the year is--2025 or 2030--if China fulfills its economic and political ambitions in that region, and it's pretty sobering.

And I think it does get back to, you know, for hundreds of years, the United States has tried to prevent a rival hegemon in Eurasia so as to allow trade and investment and ideas to flow West and prevent security threats from flowing in this direction. And we have a forward deployed military so that we can keep threats there and not here, and again that's probably not going to sell in Missouri, but it's a reality we have to consider.

For things that will sell, I will say on the economic front, markets will be closed to American businesses, and China's industrial policies will bankrupt and run American businesses out of business, and you will have Chinese champion technology firms in a number of areas, to which they're--you heard this on the earlier panel--they're being completely transparent about their goal to do just that.

And so if we want our economy, our conceptions of being at the cutting edge of innovation and technology, then this is really going to matter. And I would just, I think the--I would maybe take, not to exaggerate the point, but I would take Dan's comments about values one step further because it's not just about other people overseas, right?

I mean what we're seeing in the United States today is that Hollywood is censoring their movies because they don't want to lose economic opportunity in China; newspapers are censoring, self-censoring the reporting they're doing on Xi Jinping and the regime because they want to have their websites up in China; universities and professors are censoring what they write; they're censoring the classes they teach. Think tanks as well because of the money they're getting.

And I don't think your average citizen in Missouri loves that. We had a situation here where a valedictorian at the University of Maryland gave a speech--a Chinese national--in which she said, you know, she tasted the air of freedom here in the United States. She got decimated by the Chinese government itself in official statements, by social media in China, and I think the question is--again, not to exaggerate the point--but do we want ourselves and our children to live in a world where what we see on TV, in the news, in the movies, is fundamentally free or not? And that to me is what this whole thing is about.

COMMISSIONER TALENT: I think that's a great statement, and I'll yield in a second. I absolutely think that the folks back home will support what we need to do to prevent that. The problem is when we use terms like "norm-based international" and don't describe it to them, and don't explain it, then they default to what they are hearing.

And they think that that means foreign aid or it means some big company, you know, gets to send a factory someplace else. And so you just, you have to take it down to a level of granularity. And again, in their defense, we have trouble saying what it means, right? And we're on this Commission, and you guys study this--right--and then we expect folks back home to just sort of pick up on it.

I couldn't. It's mystifying--although I thought the rebalance policy was absolutely the right policy, but it was mystifying to me that the administration did not take that out and communicate it better. Maybe you could write a book about it some day and explain why. I don't know.

[Laughter.]

HEARING CO-CHAIR SHEA: Thank you.

Co-Chair--Vice Chairman Bartholomew.

VICE CHAIRMAN BARTHOLOMEW: Thanks. Thank you very much, gentlemen, and interesting, thoughtful testimonies.

Dr. Ratner, I too am kind of intrigued by what you were talking about, particularly in terms of Afghanistan. But and the reality of it is, of course, that China has built its economy and has built its military under the U.S. national security umbrella. And I think what you are putting out there is we need to question whether this continues to make sense under for us in some locations.

I'm not saying a retreat from the region or anything like that, but does it continue to make sense for the U.S. to be paying money and blood in order to have China be the beneficiary of our presence in places, or is it time for them to step up to the plate, to be the global citizen? So I think that that's really important.

I want to switch just a little bit on the security issues. Some of the things that have happened, of course, as you say, the Chinese have been pretty open and clear about what they're doing, but as their presence is growing on the Belt and Road countries, it provides military opportunities that might be there. Railroads allow you to move troops, for example, and roads, you know, they make the movement of personnel and weaponry easier if you need it. I think always of Tibet there in a context like that.

But are there places, places, for example, in Eastern Europe where you think that there are going to be challenges that the U.S. military is going to have to respond to because of an increasing Chinese presence, and certainly in Eastern Europe, I would put an increasing Chinese/Russian presence?

I'm just trying to think, usually when we think of flashpoints, of course, we think about the South China Sea, but is an increased national security presence by the Chinese in other regions along the Belt and Road going to cause potential military issues for us?

This is for both of you.

DR. RATNER: I'll take a first crack and then pass it over to Dan. I think in terms of areas as far as Eastern Europe, I think the answer is no, that it is not that a Chinese foothold or access agreement is going to undermine the military advantage of the United States and NATO. We're very far from that.

The Chinese for a variety of reasons--this is a wholly separate topic--but their force projection capabilities are still, they're growing, but they're pretty nascent. They're very strong along their littoral and in East Asia, but their ability to mobilize, much less fight, even if it were to be on the western end of the Indian Ocean, is very limited still for a variety of organizational reasons, not just capability reasons.

So as it relates to Eastern Europe, I think we're still far away off from that. I think, I guess what I would get back to earlier, which is I think we are seeing for sure some of the goodies of Belt and Road affecting decision-making in European capitals, and Greece is the most prominent example here where they threw themselves in front of a human rights resolution, as far as I understand it, that was going to criticize China, an EU resolution, breaking the consensus there, which is quite remarkable. And I think there are concerns as well about Hungary and other more liberal-leaning European countries being willing to sign up for this.

So I think the way that, the way that it matters for security reasons, as it relates to the United States, is that these economic projects, that there will be, there may be military access components to it, and I know this is a bit of a punt on your question, but it's the economic influence that's going to buy the political influence that's going to shape decision-making in these capitals around security issues, whether it's the Iran deal or something related to incorporating India into a multilateral organization or what's happening in North Korea sanctions or Russia sanctions, to use your example.

So I think that's where the rubber is going to meet the road on security issues, at least over the next five years. It's a long time before the PLA will be posing real operational challenges to the United States in Europe proper.

VICE CHAIRMAN BARTHOLOMEW: Dr. Kliman.

DR. KLIMAN: So on Eastern Europe, I fully agree with Dr. Ratner. The one thing I would add is that you could imagine some of the frictions created by Chinese investment under BRI going into Eastern Europe will play to Russia's current strategy, which is also targeting many of these same countries, trying to divide the EU.

So in that sense, perhaps not even deliberately, that China will in some ways advance Russia's strategy versus Europe, which is to sow division.

In terms of kind of other military points, I think it really depends on ultimately the types of capabilities that China deploys. In Djibouti, certainly in the near future, to me the main risk would probably be those of accidents, that if the U.S. and Chinese militaries have bases nearby or are operating in close proximity, we do have rules of behavior for air and maritime encounters. I don't think that quite extends or it would be interesting to see how folks in the U.S. government would interpret that when it comes to having bases in near proximity, which is a new challenge. It's not something that we've had to deconflict before. So I think there is certainly the risk of accident.

Looking kind of at other locations of the world, Gwadar, I would say the challenge is probably more for India than the United States in the near term, that if China was to put more military capability into Gwadar or nearby, it would certainly serve as a way to kind of monitor Indian naval activities in the Arabian Sea, and I think already causes Delhi great concern. I suspect you'll hear more about that in the next panel.

Sri Lanka, no Chinese military presence there now, but, of course, given Sri Lanka's position kind of at the top of the Indian Ocean across the sea lines that go from kind of East Africa into the Strait of Malacca, again that would be concerning.

But to me, the real question ultimately is what sort of capabilities would China put there? Ultimately, if it's more capabilities that would support evacuation of its citizens or HADR, those are relatively benign.

If it was anti-ship missiles and more offensive capability, that would raise more challenges, but at the end of the day, I mean still these would be kind of small pockets of China's military versus the core challenge, which is very much the Western Pacific.

VICE CHAIRMAN BARTHOLOMEW: Do I have time for one other question?

HEARING CO-CHAIR SHEA: Yes, sure.

VICE CHAIRMAN BARTHOLOMEW: Switching gears completely, Dr. Kliman, you mentioned the digital development bank, and I wondered if you could talk a little bit more about what you would envision a digital development bank would be? Would you see that there would be participation by U.S. and some of our allies' tech companies?

You know we're in a context right now both that we have limited money to invest in things, but also American companies are under an enormous pressure from China. We've seen what's just happened with Marriott, Google. They are interested in trying to get into China. Whether they would be willing to participate in an initiative that China would see as contrary to the Chinese government's interests, I'm just--I'd just like to hear a little bit more what you're thinking about with the digital development bank.

DR. KLIMAN: Absolutely. To be fair, it's an idea that I'm actually working to flesh out now through research. But where sort of it is right now, one, I think you could frame it in a way that wasn't explicitly countering China, that the world needs digital connectivity, and so we could frame it much more as part of a positive U.S. economic engagement strategy in Asia and beyond.

And in that sense I think make it much more of the sort of promotion that U.S. does already to help our companies export. So I think you wouldn't have to frame it in a way that would spook American companies from wanting to be part of it.

I mean you could imagine certainly foreign companies and governments wanting to be part. You'd also have potential tensions if you have U.S. companies and foreign companies that have the same sorts of products to sell. But I mean to me it certainly--our companies do have an advantage in digital infrastructure that they don't if you're looking at building ports or railways. It's just not something that the U.S. at this point does.

And so I would, it would be interesting to look at whether even a small amount of money that Congress either could allocate new funds or from kind of existing trade promotion authorities that it might be able to kind of create something much larger. But it's an idea that I want to work on and develop going forward.

HEARING CO-CHAIR SHEA: Dr. Tobin.

HEARING CO-CHAIR TOBIN: Thank you.

I too was intrigued by that digital investment bank. So thank you for responding to that, but my other question for you, Dr. Kliman, was you spoke about artificial intelligence, and we know from the 13th Five-Year Plan that that is an area of total commitment for the times going forward.

And we know, too, both of you know, that the military sees that as a critical threat. Could you for the record today as we think about Belt and Road talk about artificial intelligence, Dr. Kliman, and how you see that affecting the military as we look at the Belt and Road Initiative, and if you would, too, Dr. Ratner, after he speaks, if you have any additional comments?

Artificial intelligence. It's a worry we know from our prior hearings.

DR. KLIMAN: Absolutely. I would not want to suggest that kind of the Belt and Road plays a, certainly a primary role in China's overall AI development strategy, which is ultimately domestically oriented. It's, as you well know,--

HEARING CO-CHAIR TOBIN: Yeah.

DR. KLIMAN: --to certainly catch up to and then rapidly surpass the United States. This is a real concern if you hear kind of American tech CEOs. They say the Chinese are only a few years behind, and they won't be behind much longer.

In terms of Belt and Road, to me, it's more an appendage to the AI strategy that China recently had in their kind of AI development plan. There was some language about trying to build AI along the Belt and Road and cooperate with countries through new research centers.

There's honestly not a lot yet in the public domain on kind of the intersection of AI and Belt and Road. You can imagine going forward that I mean in terms of the larger kind of digital implications, whether it comes to like encryption standards or sort of how China's Internet governance model, it might be a way for China to advance that.

In terms of the military side, I mean you well know I mean that certainly there is a kind of military competition in the AI domain, and to me the main I would say asset that BRI would be for China in that sense is AI runs on data. Data is sort of the advantage. And so if China can essentially gain access to more and more data along Belt and Road, that gives it an advantage that along with this domestic market where they have 1.4 billion almost citizens and much freer rules on certainly using data for the government, that it simply gives them more of a resource to play in the AI space.

HEARING CO-CHAIR TOBIN: It's true, and if you think about the bio economy, think about that, too, more resources that they could tap.

Dr. Ratner.

DR. RATNER: Well, I guess I'll just say I think the good news is this is an area where the Trump administration and the U.S. government more broadly is quite focused, as I understand it, in the intelligence community and at the White House and the State Department and otherwise. So I think to--

HEARING CO-CHAIR TOBIN: Good.

DR. RATNER: --the extent that we lack a comprehensive competitive Asia strategy and China strategy, this is an area where there is awareness and focus. I think the remedies as it relates to CFIUS reform and other defensive measures folks are taking a hard look at. It's a big bureaucratic problem. There's questions around research and development.

And then, of course, the broader issue of the fact that us taking actions alone is not going to be enough here, and we need to be working with allies and partners, who if we are effective at blocking China's efforts to either steal or buy our advanced technologies to corner the market on some of these, in some of these areas, that they don't just then go to Germany or Israel or the next stop.

And I think we are working on that. But again I would come back to the best solution to this is a coordinated set of rules. There are rules around data localization in TPP, and I think, again, if it's not going to be the Trans-Pacific Partnership because that's a four-letter word in Washington, then we can think about rules around fairness or whatever it is, and pull the chapters out of that that we can work with partners, and then, of course, connect them up to TTIP and the Europeans, which was the original intention of building a high-standard global trade and investment regime, which is quite important.

So I think that's where the answers lie, and I don't have the political--the political question you asked is the really hard one. But the good news is that the fundamental strategic and economic reasons for it are really important. So not making it up, saying it really matters.

HEARING CO-CHAIR TOBIN: One of the things that at points when I'm discouraged, I say we've done it before. We had SEMATECH in the '80s, I guess it was. We've had Sputnik. You know, we've just got to--and then Senator Talent's ideas of how can we articulate this better to get it moving forward.

Thank you.

HEARING CO-CHAIR SHEA: Well, seeing no further questions, I want to thank both of our witnesses for their sharing their wonderful expertise with us today, and I'll also mention that Dr. Wuthnow's written testimony should be available on the Commission website at some point in the near future.

But, again, thank you both for being here, and we will reconvene at two p.m. for our third and final panel.

[Whereupon, at 12:55 p.m., the hearing recessed, to reconvene at 2:00 p.m., this same day.]

PANEL III INTRODUCTION BY CO-CHAIR KATHERINE C. TOBIN

HEARING CO-CHAIR TOBIN: Good afternoon, everyone. This will be the third panel that I'll introduce in a minute, but before I do, I'd like to give special thanks to the Commission staff, to Michelle Ker--where are you, Michelle--from our economics team, to Caitlin Campbell and Jacob Stokes from our security and foreign relations team. They worked together with Commissioner Shea and me and with our witnesses during the recent months as we prepared for today's hearing.

Thank you all very much for this joint hearing that was well put together.

So on our third panel, we will explore regional reactions to the Belt and Road Initiative and various competing visions offered by countries such as Japan and India. We have an impressive lineup of experts to discuss these topics.

We'll begin with Andrew Small. Mr. Small is a Senior Transatlantic Fellow with the Asia Program at the German Marshall Fund. Prior to this position, Mr. Small was based in the Fund's Brussels office for five years.

Mr. Small will provide testimony this afternoon on South Asia's response to the Belt and Road Initiative with focus on Pakistani responses to the China-Pakistan Economic Corridor and how India is responding to the Belt and Road Initiative on a strategic level.

Next we will hear from a Commission alumnus, Joshua Eisenman. Welcome back, Joshua. It's good to see you. It's great to have you here today.

Dr. Eisenman is an Assistant Professor at the University of Texas' Lyndon Baines Johnson School of Public Affairs. He's also a Senior Fellow for China Studies at the American Foreign Policy Council.

Dr. Eisenman will testify about developing world perceptions of and responses to the Belt and Road Initiative drawing on his forthcoming book, which focuses on China's strategies in Africa, the Middle East, Central Asia, Latin America, South Asia, and Southeast Asia. I understand you have various people putting forth analysis on those regions.

Finally, we'll hear from Mr. Tobias Harris. Mr. Harris is the Fellow for Economy, Trade and Business at the Sasakawa Peace Foundation USA. He is also an analyst covering Japanese politics and economics at Teneo Intelligence, which is a political risk advisory firm.

And in looking at your background, you have advised members, senior members of the Upper House in the Diet in Japan so you have a rich base to inform us on Japan. Thank you.

Mr. Harris will provide testimony on the Japanese reaction to China's far-reaching initiative and Japan's competing infrastructure initiatives throughout Asia.

Thank you all very much for your prepared testimony. I'd like to remind you to keep your remarks to around seven minutes so that we'll have enough time for questions and answers.

So Mr. Small, let's begin with you.

CHAIRMAN CLEVELAND: Commissioner Tobin, could I just interrupt for one moment?

HEARING CO-CHAIR TOBIN: Yes.

CHAIRMAN CLEVELAND: I'd just like to acknowledge another special guest in the audience. Alice is here.

HEARING CO-CHAIR TOBIN: Oh.

CHAIRMAN CLEVELAND: Your sister.

HEARING CO-CHAIR TOBIN: Yes, she is.

CHAIRMAN CLEVELAND: Who I met. So I just wanted to take a minute to say welcome. She's not been to one of our hearings before so welcome.

HEARING CO-CHAIR TOBIN: Well, thank you. It's a pleasure to have family here. Thank you, Chairman.

Okay. So Mr. Small.

OPENING STATEMENT OF ANDREW SMALL
SENIOR TRANSATLANTIC FELLOW, GERMAN MARSHALL FUND OF THE UNITED STATES

MR. SMALL: Thank you very much, commissioner, and thanks for the opportunity to testify to the Commission again. Apologies also, the infamous flu bug that claimed Dr. Wuthnow also claimed the long form version of my testimony. Sorry. You only have the summary and my physical presence for this today.

I'm going to try and cover three areas: CPEC, Pakistan; India's reaction; and to a certain extent Sri Lanka.

In South Asia, a lot of what we're talking about so far is political reactions to the Belt and Road, still not yet considered economic assessments. And I think that's true, even true for Pakistan, which is the most advanced set of projects that are there.

There are a lot of very high dollar value sums thrown around, not all of which are born out on the ground, and I think this is partly leading people to generalize from relatively slim data, single cases that may not actually exemplify China's approach or where China itself may draw varied lessons.

And I think in the first place with the Belt and Road Initiative, we do also need to focus on how Beijing and recipient countries are adjusting to their experiences rather than always assuming we can extrapolate.

The first case study for this is Pakistan, which I've testified on here before so I won't kind of reprise a lot of the basics around CPEC. CPEC has actually gone through a number of course corrections in the early stages. First of all, the Chinese government left a lot of the narrative setting to the Pakistani government, and this produced a number of problems.

Most of the inflated numbers come from the Pakistani side. You saw a high level of politicization of the project in the early stages, and you even saw problems for China in its negotiations with other parties who started to demand similar sized package deals for themselves.

The Chinese Embassy started to come out with their own numbers in the last period of time. We've seen all of these--46 billion, 64 billion, even over 100 billion. The embassy estimates about $20 billion worth of projects completed or in motion on the ground.

At the beginning, the Chinese also hoped to channel almost everything through the federal government. This did not work. They needed the provinces on board, and they've sought--after a lot of the political infighting you saw in the first year or so--to try to build a broader political consensus behind CPEC.

It's not complete, but I think at the political level, they're in a much stronger position than they were in the first place.

China has also come under a lot of pressure in parliament and from the media to release more information. I think it was clearly not sustainable for a national initiative on this scale to be quite so opaque. It's not transparent yet, but it's more so than it was, and you've seen this with the release of the long-term plan, more of the terms of the contracts being fed out, and so on.

And you've also seen in the negotiations on phase two of CPEC, China proposes special economic zones that would only be accessible to Chinese companies. Pakistani chambers of commerce complain, and the plan is adjusted. There is a number of other cases as well, and Pakistan has learned lessons too. They negotiated a lot of these deals very quickly, some on relatively unfavorable terms in the first phase, partly because they didn't have a lot of options and partly just because they wanted to draw China in.

I think they've understood their own leverage somewhat better in the last year or so. They've negotiated even with existing projects some slightly better pricing levels for the power projects, walked away from certain projects.

And I think if you're looking at analyzing success, there are a lot of issues around CPEC that we can get into, but if you look at the history of the economic relationship between the two countries, where they started from and what the expectations were going into this, I think the mere fact that a lot of these projects have actually moved ahead makes it one of the only early clear semi-kind of success stories so far.

The second case is Sri Lanka. And Sri Lanka, of course, was already described as a kind of debt trap poster child. Hambantota, white elephant. But you also have in Sri Lanka, as has also been mentioned, Colombo, where China helped to increase the port capacity, and the overwhelming majority of the transit trade actually goes to India. As a result, you see some of the road developments there.

Now both of these cases are portrayed as sort of successes. The whole Sri Lanka case is a sort of heads-I-win/tails-you-lose case. Debt traps mean that China gets the rights on the port. On the other hand, there are some clear projects that have been success stories there.

I would still question whether China fully assesses it in this way. Yes, they have the long-term lease on the port, 70 percent control, but a Sri Lankan state-controlled company controls access to and security for Hambantota port, and there appear to have been guarantees pretty much given to India that the PLA Navy will not have the opportunity to use that.

You've seen the port calls in Colombo, the sort that took place with submarines before were denied by the new government, and I mean, in fact, the fall of the Rajapaksa government was partly as a result of the port calls that those submarines paid. India then swung in to help pull the political opposition together as a result.

Now in many ways this is a case that looks not just like an embarrassing case, which has been able to be highlighted as a problem for China but also a cautionary tale for others in how close a security relationship might get and what the repercussions even for governments might be.

The third and final case is India's reaction. The interesting contrast for the Indian case is Russia. China worked very hard politically to get Moscow's acquiescence to the Silk Road Economic Belt and the Eurasian Union merger, and it's even, as I think we'll hear, managed to reach some sort of terms with Japan.

It really didn't put those political efforts in with India in the first phase. They were bounced into a plan that they had made as they were shaping as CPEC was moved under the auspices of the BRI, and to India's surprise, and I think China is now seeing some of the repercussions in the region to that, not just the fact that it's the only major country not to send significant representation to the Belt and Road Forum, but you've seen efforts on India's part really to be the most, the significant country that's actually pushing back against Chinese efforts.

Now India is very well aware of its limitations, and these aren't just the financing available to the Indian side. It's also, of course, India has a lot of infrastructure development to do at home. China has the luxury of being able to do this after a lot of the domestic efforts it's also pursued, which effectively it's externalizing.

On the economic side, nonetheless, there are things India can do. You've seen that with Hambantota airport, you've seen it with Chabahar, you've seen major power projects in Bangladesh, but India has recognized that operating alone is not enough.

They turned to Japan for the Asia-Africa Growth Corridor. But India has also been aware that political influence matters too. India has effectively imposed certain red lines on the Belt and Road Initiative in South Asia. I mentioned the Sri Lankan case. I think you've seen similar red lines laid down with the Maldives and with Bangladesh. There are areas where India says there are things that we are not comfortable with. This isn't just an economic choice.

And Bangladesh, I think, is the other interesting case in that respect where you saw after concerns partly that followed what played out in Sri Lanka. Sri Lanka--Bangladesh buying Chinese submarines has a very substantial arms relationship. India swung in when it came to the deepwater port with a degree of political pressure, but then it was Japanese money. In the end, I think the largest dollar, yen loan that JICA has ever made to secure the deepwater port in Bangladesh.

So you saw the kind of combination of money plus some political muscle, I think, in that case.

I'm over time. I have a couple of points on the U.S. response that I can add if people are interested in hearing. Otherwise, I might can cede.

HEARING CO-CHAIR TOBIN: Go for it now.

MR. SMALL: Okay. Thank you.

HEARING CO-CHAIR TOBIN: Please.

MR. SMALL: So, finally, then on the U.S. response, the other speakers this morning, who I listened to, have laid out a lot of this, and I think it's in the summary as well. The competitive piece of this relationship, clearly it's partly about providing options for governments and partly about providing information to civil society, members of parliament, journalists, to enable them to better scrutinize what's going on, and I fully agree that that's the thrust of what we should be doing.

But I think even with that, we have to be realistic. Even with good options, a number of these countries have reasons to take Chinese money anyway. Sometimes it's cheaper. Sometimes it's targeted to political needs. Sometimes they don't want to adhere to high standards. And sometimes it gives these countries leverage against other traditionally dominant powers in their own region.

In South Asia, that's India. In Central Asia, that's Russia. In Europe, it can even mean the EU or Germany if you look at cases like Greece and Hungary that were mentioned earlier today. The EU money that has gone into some of these countries vastly dwarfs anything that the Chinese have put in or are putting in now.

Nonetheless, these countries still see certain advantages in taking Chinese resources, and I think we have to be conscious of that. I think the important thing is that countries, and particularly some of these developing countries, are resilient, that they're not coerced, they have good options, and that they understand the repercussions of their choices. But we will have to deal with the fact that greater Chinese presence is going to be a fact rather than expecting that we're always going to be able to counter it even with prodigious resources available.

Finally, I mean there are cases where it clearly serves U.S. interests. I think Senator Talent drew out the difference earlier on between the continental and the maritime zone. And Ely Ratner mentioned this too. I think in continental South Asia, there are investments in Afghanistan and in Pakistan that will be constructive.

The U.S. has urged China to support certain power projects in Pakistan for years. Just because it's called something else now doesn't necessarily mean that it's not constructive anymore.

And there are even instances where it is possible to work with the Chinese on some of these projects. U.S. companies like GE are doing so. I think there's been some quiet cooperation there in some of these very select cases where it's clearly consistent with U.S. interests.

The very, very final point. South Asia has a problem in that it's a region where security has often trumped economics. It's very poorly integrated. There's a tiny proportion of investment in the region, barely one percent inter-regional by comparison with investors from outside the region, a very small portion of inter-regional trade. The U.S. has put efforts into this for some time, whether it's diplomatic efforts on transit trade and so on.

We do need to be careful that some of these competitive connectivity efforts in the region don't reinforce this, don't turn into a further extension of military rivalry, or produce wastefulness that just adds to the problem.

Dealing with the rise of China is clearly an important priority in South Asia, but it's certainly not the only one.

Thanks.

The Belt and Road Initiative in South Asia
January 26th, 2017
Andrew Small, Senior Transatlantic Fellow
The German Marshall Fund of the United States
Testimony before the U.S.-China Economic and Security Review Commission
Hearing: China's Belt and Road initiative: Five Years Later
Regional Reactions and Competing Visions: South Asia

South Asia has been one of the most important focal points for the Belt and Road Initiative (BRI), with two of the initiatives' "corridors" proposed there by China even before the broader scheme took shape. Yet their contrasting fates illustrate the challenges facing the BRI in the region. The China Pakistan Economic Corridor (CPEC) has become the initiative's "flagship", with over $20 billion of projects already in motion and a rebalancing of national economic strategy to take advantage of the flows of Chinese financing. The Bangladesh China India Myanmar corridor (BCIM) has stalled and India has emerged as an open opponent of the initiative, the single major country not to have significant representation at the Belt and Road Forum in May 2017 despite intense Chinese lobbying.

Five years on, the public debate about the BRI in South Asia is still shaped more by politics than economics. This is partly because there remains more speculative extrapolation from individual cases than hard economic data. Even in the case of the most advanced part of the entire scheme, CPEC, there is not yet a settled verdict on the net financial, growth, or employment implications of the projects. Much of the discussion in the region is still absorbed with security analysis – dual-use facilities, competing routes, economic coercion, terrorist threats to projects, and sovereignty concerns. And the initiative has taken on a polarizing quality. Opponents portray a scheme that is set up to entrap countries, essentially military-strategic in nature, and doomed to fail. Boosters claim it will have a "game-changing" economic impact, help to improve security ties between neighbors, and promote stability and de-radicalization. The provisional state of the scheme has allowed for the projection of fears and fantasies in equal measure.

Most governments in the region have mixed views. On the one hand, they want to benefit from the potential influx of Chinese investment, draw on quickly-available financing that circumvents the need for detailed IFI review processes, and take advantage of China's growing role to gain leverage in their dealings with the traditionally dominant power in the region, India. The connectivity deficit in South Asia is significant: the World Bank estimates that intra-regional trade accounts for only 5% of the total, compared to 25% in South East Asia, 35% in East Asia and 60% in Europe, while intra-regional investment is below 1% of the overall sum. Although some of the Chinese projects are rightly portrayed as white elephants, others fill genuine needs in upgrading the capacity of ports, addressing inadequacies in energy supplies, and improving road and rail infrastructure. Yet at the same time, states in the region have concerns about the security implications of a deeper Chinese economic presence, the potential influx of Chinese workers and companies, the quality of the projects, the terms of the contracts, and ensuring that closer economic ties with China do not come at the expense of relations with India, the United States, and other partners.

The United States and the BRI in South Asia

For the United States, the BRI provides some obvious grounds for concern. Given China's existing track record, it would be prudent to find ways to limit Beijing's capacity to translate economic influence in the Indian Ocean into political and security outcomes that are inimical to the interests of the United States, and its friends and allies. Coordination with like-minded partners, particularly India, Japan, Australia, and the Europeans, can help provide alternative economic options for states, minimize the risk of their dependence on China, strengthen their hand in negotiations with Beijing, give them the information and intelligence they need to navigate the risks involved, and ensure that journalists and civil society have the capacity to scrutinize deals and projects effectively. While building resilience and reducing the scope for Chinese coercion are likely to be the main goals, in select instances where security sensitivities are high, targeted political pressure, economic incentives and cooperation between partners can be deployed to deter countries from agreeing certain Chinese investments altogether, as Bangladesh's decision over its deep-water port in 2015 illustrates.

Although international and regional support for South Asia's economic integration long predates the BRI, the launch of the initiative has had a helpful galvanizing effect, forcing a self-critical look on the part of many countries at the scope and effectiveness of their own efforts. As the U.S. "Free and Open Indo-Pacific" strategy moves into implementation, Japan and India have taken important early steps in improving their offer, with the Partnership for Quality Infrastructure, the Asia-Africa Growth Corridor, additional ADB financing, and a number of other smaller schemes, while the EU will launch its own Euro-Asia connectivity strategy in the coming months. At least as important, though, is the broader framework of trade and investment cooperation. Bilateral free-trade and investment agreements, and plurilateral agreements such as the Trans-Pacific Partnership (TPP), will do even more to define the rules and structures of economic relations than hard infrastructure investments. Many of these efforts were specifically conceived as a way to build a standard-setting framework beyond the WTO that addresses many China-related concerns, from IPR protection to the role of state-owned enterprises. Japan, the EU, Canada, Australia, and several states in southeast Asia have continued their attempts to stitch together a new set of complementary trade platforms stretching from Europe to the Asia Pacific. South Asia was already conspicuous by its absence from these processes, and the drawing back of the United States from its leadership role in global trade makes it even harder to push forward an economic agenda in the region that serves these broader goals. Even in the optimal circumstances, states in South Asia will, in many cases, still choose Chinese financing precisely because it is non-transparent, provides opportunities for corruption, is highly-attuned to to the political needs of the government in power, and allows states greater autonomy in their dealings with India and the West. But at present, the United States and its allies are operating in the region with fewer resources in a competition that is being played on Beijing's terms, rather than fully leveraging their strengths.

Nonetheless, U.S. and Chinese interests are not purely competitive. While China's increasing role in South Asia is an important strategic development to address, the United States and its partners have other important equities in the region too, from terrorism and conflict risks to the commercial opportunities presented by the world's fastest growing region. Some aspects of the BRI will undermine this agenda, but others can help to support it. There are countries - particularly in continental South Asia - where Chinese investments have clear potential to bolster U.S. security goals. In Afghanistan and Pakistan, the United States has for many years encouraged China to play a greater economic role for the sake of stability in both countries, whether helping to provide a sustainable revenue base for the Afghan government or addressing the energy crisis in Pakistan. This logic behind this has not changed. In these cases, U.S.-China coordination can play a constructive role in ensuring that projects are well-attuned to these states' economic and political needs, drawing on the lessons of the deep U.S. economic, financial and development role there over decades. There is also a U.S. interest in ensuring that trade and economics do not fuse with geopolitical competition in destabilizing or wasteful fashion. Given the scale of the infrastructure needs of the region, it should be possible for supposedly competitive schemes to have a complementary impact. But redundant rather than mutually reinforcing infrastructure development efforts would increase the risk of financially unviable projects and bad debts. Even more importantly, while in East Asia, rivals have been able to sustain mutually beneficial economic relationships, in South Asia, trade and investment linkages have long been stymied by security rifts. The longstanding U.S. interest in mitigating this problem rather than allowing the economics of the region to turn into an extension of military rivalry has not changed either. This makes easy generalizations difficult: any assessment of how the United States should respond to the BRI in South Asia has to be based on a close country-by-country - and even project-by-project - analysis of the role that new Chinese investments and financing will play in the regional economic and security order.

The BRI in South Asia: an overview

When evaluating BRI investments in South Asia, it is helpful to distinguish between projects that were specifically envisaged under the scheme and those that predate it. There are a number of differences in the economic model that informed the previous Chinese approach to investment, the level of diligence applied by Chinese financing institutions, the decision-making processes on the Chinese side, the strategic intentions behind the investments, and the political salience attached to them. While there will evidently be many elements of continuity in the behavior of Chinese actors, the push for natural resources in the 2000s that lay behind the Saindak and Aynak copper mines, say, is not the same as the present infrastructure-heavy approach. Equally, some seemingly-failed investments from a previous era, such as Gwadar and Hambantota ports, have received a new lease on life under BRI auspices and merit re-appraisal. It is also helpful to base assessments on projects that are actually in the process of implementation rather than those that are still under negotiation, and may never see the light of day. Some estimates of the CPEC package now run at well over $100 billion, yet Chinese officials themselves use a substantially more conservative metric, and the last few years have seen a number of major investments shelved, from Diamer Bhasha dam to several coal-fired power plants.

On this basis, a brief overview runs as follows. Despite a very disappointing history of economic relations between the two countries, **Pakistan** has attracted by far the largest package of investments. Incorporating energy projects, rail and road connections, infrastructure development, and industrial zones, CPEC is one of the few schemes that appears to match the ambitions of the overall initiative. It is also buttressed by further energy projects that do not technically fall under CPEC's ambit. After a rocky start, in which Beijing was surprised by the level of political infighting and protest in a country that has been its most reliable security partner, China has secured a level of consensus behind CPEC from Pakistani political elites and has succeeded in moving ahead with many of the first phase of projects, which are already showing tangible results in the power sector, roads, and the development of Gwadar. Nonetheless, there are still significant unresolved questions and internal debates over the impact of CPEC on Pakistan's growth rate and finances, as well as its overall strategic direction - reviving the old question of whether Chinese backing plays an emboldening or restraining role on the country in its regional behavior. **Afghanistan,** by contrast, has elicited very little Chinese interest, with the major pre-existing oil and copper investments there in stasis. While there are tentative discussions about the development of new cross-border infrastructure with Pakistan and rail links through Central Asia, progress is slow and it will likely not improve markedly until there is a major change in the security situation. **Bangladesh** has agreed a package of investments that amount to a high dollar figure ($28 billion) but developments on the ground have been more limited, governed by a level of political caution that reflects the close relationship between the Hasina government and New Delhi. China lost out on the opportunity to develop the country's first deepwater port after political pressure from India and the United States, and an attractive financial offer from Tokyo - whose development agency, JICA, issued its largest-ever loan - saw a Japanese alternative selected instead. **Sri Lanka** had a significant package of Chinese investments dating from the Rajapaksa era, surging in the immediate aftermath of the civil war, during which China had provided crucial diplomatic backing and arms supplies. This included a set of projects in and around the capital, Colombo, that were largely economically sound - including the expansion of Colombo port and the Southern Expressway - and a set of white elephant projects in the south of the country around Rajapaksa's home constituency. These added to the country's severe debt burden and, following Sirisena's election in 2015, the new government was forced to renegotiate terms with the Chinese, resulting in Chinese companies taking a 70% share in Hambantota port on a 99-year lease. While it is fair to say that Sri Lanka's debt problems are more a byproduct of the civil war than a Chinese "debt trap" ploy, and that the more egregious projects there predate the BRI, the punitive and restrictive terms of the contracts and the subsequent debt-for-equity deal were undoubtedly Beijing's own doing, and have turned the Sri Lankan case into probably the most damning critique of the BRI. The **Maldives** is now heading into similar territory: on some estimates, over 70% of the government's foreign debt is owed to China, which has taken on projects at prices that are widely seen to be inflated, made land purchases that required a constitutional amendment, initiated a free-trade agreement with minimal scrutiny, and provided political and economic support to an increasingly autocratic government. The democratic opposition has even threatened to bring a case to the Hague against Chinese "land grabs" if it takes office. In **Nepal**, conversely, the recent change of government has brought to office a left alliance that has promised to push ahead with Chinese projects - including a dam and rail link - that its predecessor had stalled, despite formally signing up to the scheme.

If the first phase of the BRI in South Asia still has relatively little economic data to analyze, the political impact has been considerable, particularly when it comes to China's dealings with the largest two countries in the region: India and Pakistan.

Case study: CPEC, a relative success

When CPEC was launched during Xi Jinping's visit in April 2015, the disappointing track record of economic cooperation between the two countries gave cause for deep skepticism about how much of the proposed investment would actually materialize. Between 2001 and 2011, while $66 billion of Chinese investments in Pakistan had been cumulatively announced, only 6% of these were ever realized. By this metric alone, CPEC has been a success. While the larger numbers thrown around are often inflated, from the initial $46 billion to triple-digit estimates, even the more conservative figures provided by the Chinese embassy in Islamabad suggest that over $20 billion is now in motion on the ground.

Political reactions in Pakistan have gone through three cycles.

The first was an optimistic public face from the government but private doubts that the initiative could be realized, after many years of a bleak investment climate and the consistently poor historical experience with Chinese economic cooperation. The Pakistani side rapidly agreed terms for many of the initial contracts that were not especially favorable and the cumulative financial impact was not very seriously assessed, partly on the assumption that only a fraction of the projects would actually happen. But it had the effect of drawing China in and ensuring that a large-dollar value could be attached to Xi Jinping's visit: $28 billion of projects agreed, $46 billion when projects that were still under negotiation were included. This gave the scheme higher political salience during a phase when Beijing was struggling to find opportunities to move the BRI forward tangibly on the ground. China did not initially expect that CPEC would be the "flagship" for the BRI but Pakistan was one of the few countries that was comfortable with offering such a wide array of projects on financially-attractive terms and allowing a such a privileged role for Chinese companies in the process.

The second cycle was characterized by internal disputes over the beneficiaries of CPEC, once it became clear that there were real resources attached to it. This was partly born out of confusion about what the scheme actually amounted to, a confusion that still affects understanding of the corridor. CPEC was initially understood to be a transit route for goods and energy to flow between Xinjiang and Gwadar port, resulting in fierce battles over where the supposedly lucrtic route would go. Yet Beijing has long been skeptical of Pakistan's value as a transit corridor. The land route between the two countries is routinely closed by landslides and was virtually impassable for several years. The cost of transporting energy via pipelines or other means is also prohibitively expensive. From a military perspective, the route is extremely vulnerable in the event of a major conflict. While there are security concerns about Balochistan and other locations on the route, topography is by far the greater challenge. Before CPEC, China was already working with Pakistan to upgrade the Karakoram Highway to a wider, all-weather surface, including tunneling to reduce the vulnerability of some of the most landslide-prone sections of the route. But the continued expectation is that, while land trade will rise from its existing low base, the most reliable and economically efficient trade route between the two sides will still be by sea. This is evident from any assessment of the plans for current and future CPEC projects through 2030, where the cross-border connectivity elements are modest, with no railways or pipelines currently envisaged. The plans instead include a diffuse array of Chinese investments across Pakistan, heavily focused on energy projects and improvements in internal infrastructure connections. If these elements are successful, China and Pakistan intend to move forward with broader-based industrial cooperation through special economic zones and other ventures, before ultimately moving into other areas that include agriculture and tourism. Although the term "corridor" is evocative, CPEC is more accurately described as an investment package and an economic cooperation platform.

The third cycle has seen a more realistic appraisal of some of the economic risks - particularly with respect to debt and balance of payments - and willingness on the Pakistani side to negotiate harder on terms as a result. Implementation has also moved out from the federal level to the provinces, while the federal government has focused on negotiations over the long-term plan and CPEC's second phase. Meanwhile, many of the early harvest projects are in advanced stages of completion: notably some of the power projects and roads. This includes the first road connection of Gwadar through Balochistan to the Pakistani interior rather than along the coastal highway to Karachi. With phase two of CPEC about to get underway, we are likely entering into another distinct phase of reactions. Where phase one was heavily focused on road and energy projects, phase two is focused on industrial cooperation and special economic zones. In practice, China had been able to build roads, ports and power plants in the past but private sector cooperation and the Pakistani export sector have always been more of a challenge. There are already tensions with Pakistani industry, which does not want to see Chinese companies operating under the sorts of incentivized conditions that China itself used to draw Western companies to locate in special economic zones in the 1980s and 1990s.

In theory, the coming years should see some demonstrable CPEC success stories – power stations coming online, the establishment of industrial zones that should generate more (and higher quality) jobs than the early harvest projects, and even a Gwadar that can start to function as a viable port. But the risks of failure and of local unhappiness are significant, whether it be regions seeing an influx of Chinese workers or further incidents that see Chinese citizens being killed and kidnapped. All of this is compounded by the fact that the next period also sees the greatest projected risks of debt and balance of payment crises across CPEC's lifetime. The first of these may come as early as this year, if Pakistan returns to the IMF, which would have the effect of making it appear, accurately or otherwise, that the international community is bailing out Chinese economic investments. It is also far from clear that CPEC can really fulfill the inflated expectations that have become attached to it - catalyzing a growth take-off, let alone the ambitious Chinese political and security goals detailed during my testimony on China and Pakistan in the 2016 hearing.

Nonetheless, even if the jury is still out over the longer-term, CPEC can already be considered to be a partial success for the BRI given the challenging circumstances, poor historical track record, and commensurately low expectations. Relatively high levels of political trust between the two governments, a degree of consensus behind CPEC across the Pakistani political spectrum and its civilian and military institutions, and alignment between Chinese and Pakistani strategic goals, have created the conditions for a very wide array of projects to move forward despite the clear obstacles. The nature of the Sino-Pakistani relationship may make it a *sui generis* case but since it is the most advanced package of economic cooperation that exists under the BRI, it will be used as a reference point for the scheme nonetheless.

In this sense, there is also the potential for developments with CPEC to counteract other elements of the emerging BRI narrative. The view that Pakistan will find itself in a similar position to say, Sri Lanka, in which China can make political demands, gain land concessions, and generally exploit Pakistan's position of growing dependence to pursue military and political ends is wide of the mark. While this might be a plausible argument for China's dealings with certain other developing countries, it is at odds with the dynamics of the Sino-Pakistani relationship. Pakistan is already highly accommodating to Chinese preferences. It has been more than open to Beijing's requests for everything from use of military facilities to access for Chinese companies. And on the rare occasions when Beijing does choose to exercise its leverage more forcefully, it has been able to do so. If anything, creating a more coercive set of conditions would risk weakening China's hand. Its leverage rests on a hard-earned reputation as the country that is most reliably aligned with Pakistan's long-term security interests, and the resulting high levels of trust among both elites and the public. CPEC has already proved more controversial in Pakistan than China would have liked, and there is little appetite for measures that would foster resentment in a relationship that Chinese leaders wish to portray as a "model to follow." While there are good grounds to believe that CPEC will run into challenges, Pakistan is a case where China is more likely to exhibit strategic generosity than squeezing one of its only friends.

Case study: India, a political mishandling

One of China's chief political concerns in the early days of the BRI was to secure Russian consent and approval for the Silk Road Economic Belt. A premium was placed not just on ensuring bilateral cooperation for investments in Russia itself but the coordination of plans between the SREB and Russia's Eurasian Union and with it, a blessing for the further expansion of China's investments in countries that Russia considers to sit within its sphere of influence. In South Asia, China would have been well advised to make a similarly comprehensive effort with India. The relationships between the two countries are evidently qualitatively different, and Moscow's back was against the wall as a result of the sanctions regime imposed after its annexation of Crimea, but the principle - that a serious attempt should be made to reach a political accord with potentially disruptive countries during the inception phase of the BRI - was not observed and has proved costly for China.

Despite its doubts, India had agreed in 2013 to move tentatively forward with plans for the BCIM corridor. It had joined the Chinese-initiated Asia Infrastructure Investment Bank (AIIB). The Modi government had also shown interest in relaxing the rules that had restricted Chinese investment in India in the past. In this sense, New Delhi was not approaching the BRI from a position of deep pre-existing hostility. Yet in the early stages, India was surprised to see a number of its ports feature on semi-official maps of the BRI, for China to place the BCIM corridor under the BRI's auspices - in neither case with any consultations - which was then rendered even more problematic by Beijing's decision to include CPEC under the BRI rather than as a separate and distinct initiative.

CPEC has provided the main focus of the formal objections that India raised with China over the BRI, since it transits territory that India disputes, and that China has long acknowledged is disputed. But in reality the cross-border transit elements of the scheme are relatively minor, the package of investments in Gilgit-Baltistan and Kashmir proper is small, and other countries - including the United States - have supported development projects in these territories without similar Indian objections. It is hard to make the case that there is a significant material change to the status quo, that CPEC is a violation of a pre-existing understanding, or that there is a consistent and principled objection to all economic development efforts in Kashmir. In this sense, CPEC is better understood as derivative of broader Indian concerns about the deepening Sino-Pakistani relationship, the security implications of China's economic influence in its neighborhood, and tensions on other issues between the two sides, from India's membership of the Nuclear Suppliers Group to worsening flare-ups at the border.

The strength of Indian antipathy to the BRI was manifest in its decision - despite considerable Chinese lobbying - to be the only major country not to send a serious delegation to the Belt and Road Forum in May 2017. India's statement on the eve of the forum summarized its concerns, from the "financial responsibility to avoid projects that would create unsustainable debt burden for communities" to demands that projects “must be pursued in a manner that respects sovereignty and territorial integrity”.

India’s response has taken three forms.

The first has been heightened attention to diplomatic and economic outreach in its neighborhood. Modi has paid visits to virtually every South Asian state since taking office and made a renewed push for various forms of bilateral and minilateral economic cooperation, as well as additional investment in structures such as BIMSTEC. While India faces various constraints of its own, from its lack of financial firepower to pressing infrastructure demands at home, it has sought to work in conjunction with deeper-pocketed partners, principally Japan, to expand beyond its bilateral agenda.

The second element has been the establishment - and enforcement - of some clear red lines regarding Chinese military presence. In 2014, Chinese submarines paid surprise port calls in Colombo. Sri Lanka and India had an agreement that the Indian side would receive prior notification of any such visits, and the failure to do so on the part of the Rajapaksa government appeared to portend a Sino-Sri Lankan security relationship that was moving in a problematic direction. These were a catalyst for Indian efforts to bolster and unify Rajapaksa’s opponents, and his subsequent fate in the 2015 elections acted as a warning to others, notably the Maldives and Bangladesh. The combination of carrot and stick was most strikingly in evidence for the Bangladeshi Matarbari port deal in 2015, where political pressure and economic incentives pushed Dhaka to opt for a Japanese package instead of the Chinese deal that was in advanced negotiations.

The third element has been the effort to shape the narrative around the BRI, both through public communication and private interaction with other governments, where India has been the only country to raise its concerns quite as consistently at the very highest political levels. This has had a telling effect: while many countries had objections of their own, India has been effective at nudging them closer to their view, including most notably the United States.

For both India and China, the question is where to go next. India has been successful in imposing practical and reputational constraints on the BRI in South Asia but now faces a protracted contest in its own region rather than having the scope to negotiate a set of terms with China under which BRI projects are conceived with better fit for India’s own economic needs. Beijing still has the means to continue to secure projects and advance its economic cooperation with many South Asian governments but in a confrontational and politicized environment that is doing damage to the broader perception of the BRI. Although competition between China and India will certainly continue, the question in the coming year will be whether the two sides are able to reach a new *modus vivendi* over the way it is conducted, where India is able to condition and leverage the BRI in South Asia in return for a degree of political acquiescence to the scheme.

Conclusion

In 2018, the BRI is at something of a crossroads in South Asia. One of the biggest questions in the coming years will be whether China learns from its early experiences and adjusts as a result or if some of the early problems become endemic. There are several areas in which course corrections on China's part would change not only how the initiative is perceived but also its likely impact on the region. These include: the closed nature of aspects of the scheme to third countries; its bilateral rather than regionally-focused character; its lack of transparency; the concerning approach to the handling of debt issues; and China's failure, so far, to reach an accommodation with India over strategic economic issues in the region. Some analysis holds that this is simply a function of the way Beijing operates, and that these issues are - as a result - hardwired into the BRI. That may prove to be accurate. Yet the controversies around the early days of the initiative are a sharp contrast with the successful Chinese diplomacy that characterized the inception stages of the AIIB. Despite similar levels of international skepticism, China showed political deftness there in getting so many countries on board - including India - as well as demonstrating willingness to pursue infrastructure initiatives that appear to adhere to international standards and complement existing connectivity efforts. It would be unrealistic to expect China to turn the entirety of the BRI into an enlarged version of the AIIB: the opportunity to provide bilateral, politically directed investments is a prerogative that Beijing shows little inclination to forego. But with the BRI emerging from its teething phase, China faces a choice: to develop the initiative in the direction of a closed, Sino-centric "hub-and-spokes" model, which is liable to exacerbate geopolitical competition in the region and provoke further resistance from other powers, or something closer to an open "platform" model, which - while still serving many of China's bilateral interests - would also be more closely attuned to South Asia's considerable needs for economic integration.

OPENING STATEMENT OF JOSHUA EISENMAN
ASSISTANT PROFESSOR OF PUBLIC AFFAIRS, UNIVERSITY OF TEXAS AT AUSTIN

HEARING CO-CHAIR TOBIN: Thank you.

Dr. Eisenman, please.

DR. EISENMAN: Well, thank you very much. It's a pleasure to be back here at the Commission, and I want to thank the Commission staffers, Michelle, Caitlin, my old friend Nargiza, and of course Commissioner Bartholomew, it's great to see you again. And if I might just recognize one person in the audience, Commissioner Pat Mulloy, my friend and mentor, who's joined us here today.

So where to jump in on this. Oh, very briefly, of course, OBOR is loan driven. All right. OBOR, BRI, whatever we call it, it's loan driven. And it's "build it and they will come." Right. It's not about necessarily building industrial capacity or industries. It's about building connectivity.

And in this way, it makes it unique in the history; right? Capitalists tend to want to find cheaper labor so that they can make their products cheaper so they can make profits. And in that way, OBOR is somewhat unique because it's about building the connectivity into markets rather than actually building capacity in those markets to export back to make more money. That makes it quite unique.

And it's epitomized by three changes in the economic arena, which were summarized by Professor Ren Xiao at Fudan. I'll just summarize them very briefly. One is the sheer size of the thing is much bigger. Second is it's going out further than ever before; hence, our discussion here of the implications for different countries. And it does suggest a geostrategic shift to the West, right, where China had traditionally had these relationships with Central Asia, the historic Silk Road, et cetera, whereas over the last since China's reform and opening up in '78, we've seen China mostly focus on Japan, Korea, the United States.

If you look at China's trade portfolio, it's overwhelmingly with developed countries, and this is a way to almost balance that. And so that makes it again a unique change from what we've seen in the past.

So let me break my next five minutes up into two parts. First would be what would success look like? And then I want to lie out for you a couple of possible risks that I see.

Economically, success would mean deploying excess capacity, and I could say this would be the priority, not only, however, in terms of capital construction but also in terms of labor. China, remember, has 30 million extra men it needs to deploy. So it's not only about capital; it's also about labor. So this is very much a domestic stimulus program.

Second, China would have to be repaid. If you lend somebody money, you hope to be repaid, or it should gain something in return--equity stakes, what have you.

And third, we would expect the internationalization of the RMB to be part of this process. If any one of these three things would fail to happen, it would be hard to see BRI as an economic success.

Politically, China's influence would have to go up in the countries where BRI is active. If you have BRI, and you have less influence at the end of the day, that is not a political success. So politically speaking, China has to increase its influence, the Party to Party linkages and other linkages.

Culturally, China would become, quote, "a cultural major power." Now this is questionable because China itself had a Cultural Revolution where it destroyed its own culture. So the question of how you then export a culture where you tried to destroy yourself is a question.

China also for those of us who have been there, Chinese clothes are now Western clothes; Chinese sports are Western sports. What would exporting Chinese culture look like? I would say this is a question mark, but Xi Jinping has put it forward so I mention it.

And then strategically, China would create what Professor Di Dong Shang [ph] at Renda calls "an alternate solar system contrary to the U.S. solar system." And this refers back to this idea as China as the Middle Kingdom, which by the way it still calls itself in Chinese. So the idea of China as the middle, the kind of pole, the nexus, of trade and political linkages is an important part of One Belt One Road.

So let me in my last three minutes then get into the possible crises that I see coming out of this, and we can discuss this later.

First thing I would say, perhaps most probable, and I'm not really sure how this would unfold, but some kind of domestic debt crisis. Until this point, One Belt One Road has been primarily domestic. We've seen in Hunan alone a trillion dollars in renminbi. Far more has been spent domestically than internationally.

And this, this suggests that a lot of companies, a lot of provincial governments, which had found it hard, they had been liquid short, they didn't have the money, they had a racking up debts, and they didn't have the liquidity to do the projects they wanted, have now found a way through One Belt One Road to gain the liquidity they need and to build up their infrastructure domestically.

And if you look at a lot of the maps of One Belt One Road, you'll see there's this vast domestic component of it which starts I think in like Fujian and then goes all the way up, and that domestic component is going to be a major expenditure, and it's a lot easier to do that because it's within the Chinese Communist Party's hands at this point so they're moving forward on that first.

And so the question is when you have a massive amount of debt, which this Commission has looked at for years, and then you basically triple down on that, what's the outcome? And I'm no soothsayer. I don't know exactly, but I do know that, you know, how long can this go on, and what we're seeing is a doubling, tripling down on debt-driven growth. In a lot of ways that's what the Communist Party of China has done for a long time. It's not surprising that it would kind of revert back to this approach.

Domestic inflation crisis is also something we might see, and let's not forget this took down the KMT. This has taken down a lot of governments over time. I call it the silent killer because you never know when it's actually going to strike, but if you keep bailing out banks, you keep pumping liquidity into the market, eventually the money isn't worth what it used to be, and that's the nature of economics.

And the question is what will One Belt One Road's influence be on the money supply in China? I would say an international debt crisis--if we see the kind of One Belt One Road that Xi Jinping wants to create--is possible simply because we are in an economic upswing now. If you lend on an upswing, the downswing happens, questions of pay back, questions of moral hazard, countries coming saying I need to renegotiate, then five more countries, then ten more countries, you could end up in this rolling landslide of renegotiations.

And if you did end up with a crisis, you're now working at a level far beyond the IMF's ability to bail out countries. All right. And at that point, working without a net, you begin to be concerned about global systemic crisis.

Moreover, with the new bond link to Hong Kong, Americans can now buy Chinese bonds. If the Chinese securitize One Belt One Road debt, which they are doing domestically although not internationally yet, as I understand it, then that could mean an international securitization. Think 2008, 2009, in terms of the systemic possibilities. It doesn't matter if it's backed up by a bad house in Detroit or a bad loan to Tajikistan, a bad loan is a bad loan; a bad bond is a bad bond.

So there is this systemic crisis. But at this point, internationally, there isn't the size to warrant a concern on that yet although domestically I would say there is.

In terms of security crisis, we've seen this around the world, we've seen it in Libya, we've seen it in Yemen. The more Chinese people you put on the ground, the more possibility they have to be harmed, in harm's way, and the more possible security crises that could emerge.

Let's not forget the history of the Opium War, where a failure of the British to in terms of their product, at that point, opium, led to a military conflict. We could see a situation--I'm not predicting it, but it's not impossible--where the Chinese find an economic crisis leads them into a security crisis whether they wanted it or not.

If I might just have a couple more minutes to list my last two points.

HEARING CO-CHAIR TOBIN: Please.

DR. EISENMAN: I would say that one thing the Chinese should be particularly concerned about is a speculation crisis. If you do internationalize the renminbi, you put a huge amount of renminbi out into the world, and that makes it possible for foreigners to buy that renminbi and then leverage it against your country if they want to. If they don't like your policies, they can sell renminbi. The price of the renminbi would fall; you'd have to intervene in the markets in order to prevent that from happening.

So the more externalization through One Belt One Road leads to more possibility of speculation crisis.

There's also a possibility of a political crisis. Xi Jinping is as human as anyone in this room. It's his initiative. If something were to happen to him, the initiative would be put into question, and I can just leave it at that. We can think of many different other political crises, but I think that's, you know, he's a mortal, period.

And then I would say the most difficult crisis for China might actually be an identity crisis; right? China is not the borrower anymore; it's now the lender. Its meta-narrative of the defender of the developing countries that it has been advocating since the Mao era and continues today could be challenged if China is seen to be a predatory lender. If its image is harmed in that way, it has serious reputational risks for the way that other countries perceive of it, but also the way that Chinese see themselves and their role in the world.

China is fond of telling others that it is a country that loves peace and loves development. And if those are called into question through One Belt One Road, then that questions, as I said, the entire meta-narrative that the Communist Party has been promulgating.

So I would say these are the potential risks, and I'm happy to talk about them or my written testimony.

Thank you so much, commissioners.

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Contextualizing China's Belt and Road Initiative

Written testimony for the USCC submitted on January 19, 2018[1]

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[NOTE: *This testimony places the Belt and Road Initiative (BRI) in the larger strategic context of China's longstanding political-economic relations with the developing world. In keeping with the questions provided by commission staff, this testimony has four primary objectives: (1) explain China's strategic goals in the developing world and BRI's role in achieving them; (2) unpack and summarize the primary Beijing political-economic initiatives with an emphasis on BRI and China's political and soft power outreach; (2) explain how other countries have perceived and responded to China's development-first approach spearheaded by BRI; and (4) articulate some of the implications for the United States.*]

I. Overview

On May 14, 2017, over 1,500 people, including twenty-nine national leaders and delegates from 130 countries, gathered at the China National Convention Center in the Olympic Center in Beijing to hear President Xi Jinping's remarks opening the Belt and Road Initiative (BRI) Conference. "What we hope to create is a big family of harmonious co-existence," Xi said, then announced another 100 billion yuan ($14.49 billion) for the Silk Road Fund, bring the total to nearly $55 billion. Moreover, he added: "The China Development Bank and the Export-Import Bank of China will set up special lending plans respectively worth 250 billion yuan and 130 billion yuan to support Belt and Road cooperation." During the group photo, Xi was flanked by Russian President Vladimir Putin and Turkey's President Recep Tayyip Erdogan, who both spoke at the ceremony. Ethiopian Prime Minister Hailemariam Desalegn summed up the mood among the attendees: "China has taken the leadership in laying the foundations for the realization of our shared vision for an open, fair and prosperous world. Achievement of this vision will require our political commitment and a huge sum of resources."[1]

For centuries, Western observers have predicted that China would someday emerge as a major political and economic force in regional and world affairs and—as the 2017 BRI Conference and dozens of similar events demonstrate—that day has arrived.

The pace and scope of China's emergence has been breathtaking. Between 2000 and 2016, China's real GDP increased more than fourfold to roughly $11.4 trillion at the 2016 exchange

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[1] This testimony is derived from the forthcoming book: Joshua Eisenman and Eric Heginbotham, eds., *China Steps Out: Beijing's Major Power Engagement with the Developing World* (London: Routledge, 2018).

rate;[2] its foreign trade climbed from $642 billion to $3.7 trillion (in 2016 dollars);[3] and its share of the global economy grew from 3.6 percent to 14.9 percent.[4] Over the last three years, Chinese FDI, which was about $70 billion in 2013, exceed $170 billion in 2016.[5] When Beijing abandoned isolation and began its economic "opening" to the world in the mid-late 1970s, even the most optimistic Chinese policymaker could not have predicted such a precipitous expansion of global engagement.

Under the "going out" strategy, which was first advanced in 1997 and formally initiated in 1999, Chinese firms have been transformed from novice newcomers to global powerhouses, and become deeply enmeshed in international trade, banking, and mergers and acquisitions.[6] The growth in China's trade with the developing world has consistently outstripped that with the developed world, and Beijing's policy banks (most notably the China Ex-Im Bank and China Development Bank) have deployed hundreds of billions in capital in an unprecedented global infrastructure financing campaign that dwarfs that of the World Bank.

After the 2009 global financial crisis, Chinese leaders came to believe that the historic trend towards multipolarity had accelerated and that developing states were becoming ever more important economic, political and military partners. China's new self-confidence was reflected in Xi Jinping's notion of "major power diplomacy with Chinese characteristics" and his call to shape the international environment more proactively.[7] China has become an increasingly active participant in international institutions, taking a leading role in United Nations peacekeeping operations and almost doubling its contributions to and vote share in the International Monetary Fund.[8] Beijing has also created and funded numerous Sino-centric regional organizations (e.g., the China-Africa Cooperation Forum and the China-Community of Latin American and Caribbean States Forum) that provide regional venues for Chinese leadership. Other organizations like the Asian Infrastructure Investment Bank (AIIB) enhance the perception that China has emerged as the champion of globalization, though it is unclear whether such institutions complement or challenge existing international institutions.[9]

Since 2013, Beijing's "going out" policy has been expanded into the ambitious BRI initiative championed by President Xi Jinping. To cope with excess industrial and construction capacity and gain higher returns, the financing of infrastructure has been accelerated under the BRI. To help Chinese state-owned and private firms take advantage of new economic opportunities in lesser-developed regions, China has policy banks and other funding mechanisms (e.g., the China Ex-Im Bank, China Development Bank, the China-Africa Development Fund, and the Silk Road Fund) to lend money to foreign governments to execute infrastructure projects employing Chinese firms. The Beijing-based Asian Infrastructure Investment Bank, unlike the others, is a multilateral institution, but it is also part of China's larger international development and trade promotion strategy. According to an official media outlet: "With the 'Belt and Road' initiative and other strategies serving as a powerful engine… China's overseas investment will continue to maintain a double-digit growth rate."[10]

Yet, China's ambitious push into the developing world, now headlined by BRI, has not been without setbacks and problems. China's economic slowdown, especially the sharp downturn after 2015, precipitated a drop in global commodity prices and raised new questions about the profitability of many government-driven commodity investments. Similarly, after making tens of billions in politically-driven loans at favorable rates to countries such as Venezuela, Zimbabwe, and Sri Lanka, China now faces problems recouping its money. The question is whether BRI will reverse these trends or, more likely, exacerbate them.

Asymmetric trade and investment relations have engendered concern among leaders in numerous developing countries, and, in some cases, drawn protests from local populations. China's growing hard power, combined with its more assertive approach to territorial and boundary issues in the South China Sea, has also caused some states around China's periphery to seek closer military or strategic ties with the United States and Japan. Farther afield, in the Middle East and to a lesser extent Africa, Beijing's commitment to neutrality and non-interference in regional disputes are increasingly being tested as its economic interests expand in ways that require it to behave like a more traditional major world power.

II. China's Strategic Objectives in the Developing World

There are various formulations of China's "core national interests" (核心利益), but all assume three overlapping objectives.[11] First, China's leaders seek to ensure the continued rule of the Communist Party; second, they seek to maintain and defend China's sovereignty and territorial integrity; and third, they want to maintain an international environment conducive to China's continued economic growth.

Despite propaganda efforts to portray Chinese policies as rooted in solidarity with the developing world, the drivers of Chinese policies remain primarily domestic, and regime survival remains Beijing's foremost objective, informing all other interests. The priority on regime survival is evident in the content and character of its diplomacy, party-to-party relations, defense of sovereignty norms in international politics, and in its near single-minded emphasis on economic development.[12] As Deng Xiaoping said in 1992: "Development is the hard truth" (发展是硬道理).[13] At Davos in 2017, Xi—in a comment reminiscent of both Deng and U.S. President Abraham Lincoln's Gettysburg Address—said: "Development is of the people, by the people and for the people."[14]

The emphasis on economic growth and domestic stability naturally shapes China's engagement with the developing world. Chinese leaders view economic growth and welfare as central to regime survival, and they view trade as a critical engine of growth. For more than a decade, developing countries have supplied the minerals, metals, timber and energy demanded by the Chinese industrial, construction and manufacturing sectors. To secure steady access to those resources, Chinese companies have, since the early 2000s, moved to purchase upstream energy and mineral assets, primarily in developing countries. These countries have also become important outlets for Chinese consumer products, enabling Chinese firms to build brand loyalties in emerging markets.[15]

Improved living standards are integral to Xi's "China Dream," with its goal of achieving a "moderately well off" society (小康社会) by 2021. For many years, officials in Beijing viewed rapid economic growth as essential to absorbing China's growing workforce and avoiding social instability. Since the Third Plenum of the Communist Party's 18th Congress, however, leaders have emphasized balanced growth, environmental protection, and eliminating structural imbalances within the economy. That said, old habits die hard. Local and many central government officials continue to use GDP growth rates as the yardstick of success. Moreover, Xi's "Made in China 2025," is a plan to comprehensively upgrade and strengthen the country's manufacturing capability. Nevertheless, as wage structures continue to shift in China and as environmental concerns mount, labor-intensive industries (e.g., textiles and leather goods) will continue to shift production to developing states.

The developing world is also a locus of Beijing's efforts to maintain or defend its "territorial integrity." After a "diplomatic truce" from 2008 to 2016, the competition for diplomatic recognition between Taipei and Beijing appears to have resumed with the election of Tsai Ing-wen in Taiwan. In its quest to contain separatist impulses in Tibet, China periodically sanctions countries and foreign organizations that give the Dalai Lama a platform or afford him anything approaching recognition.[16] Chinese activities to secure its claims to features in the South China Sea have included the use of hard power and coercive measures directly against rival claimants. China has also solicited public support from at least 66 mostly-developing countries for recognition of its maritime territorial claims in the South China Sea, and employed a variety of economic and political means to purchase the loyalty of the smallest and weakest states in ASEAN (Laos and Cambodia) to divide the organization and prevent unified opposition from coalescing.[17]

More broadly, China has found common interests with developing states on a range of political-economic issues (e.g., environmental priorities and trade-offs, trade policy, technology standards, and the form and function of international institutions) and has sought to partner with the largest of them to foster a more "democratic" international order. Interests on these issues often align across regime types. Despite India's long history of vibrant democratic governance, New Delhi's votes in the UN General Assembly on various issues are more closely aligned with those of Beijing than they are with Washington's.[18] In Beijing's case, support for norms related to state sovereignty and non-intervention are motivated by a desire to insulate itself from international condemnation, sanctions and intervention related to its human rights abuses and harsh policies toward minorities in Tibet and Xinjiang.

III. Structure of China's Political-Economic Engagement with Developing Countries

China's relations with developing countries display three principal characteristics: first, Beijing benefits from and sometimes exploits asymmetry in its relations with developing countries; second, China pursues a "package" approach – bringing economic, political, and other means to bear in a coordinated, albeit imperfect, manner; and third, Beijing advances its interests through a network of interlocking and self-reinforcing bilateral, regional, and global engagements. Each developing country's ability to derive benefits from its relationship with China depends primarily on its ability to develop and implement a coordinated national strategy that carefully considers the combined implications of these three characteristics over the short, medium, and long term. If a developing country ignores these realities or fails to consider their full implications, it is unlikely to achieve its own objectives vis-à-vis China; a much larger, richer, and generally, better coordinated state.

Asymmetric Engagement

Asymmetry is the most pervasive and enduring aspect of nearly all of China's bilateral relationships, a fact that then-Foreign Minister Yang Jiechi reminded a security forum of the Association of South East Asian Nations (ASEAN) of in 2010 when he said: "China is a big country and other countries are small countries, and that's just a fact."[19] Indeed, China's nominal GDP ($11.4 trillion in 2016) dwarfs every developing country and is more than double the combined GDP of India ($2.3 trillion), Brazil ($1.8 trillion), South Africa ($280 billion).[20] In 2016, Chinese exports made up more than half of all exports from the developing world.[21]

Although asymmetry is ever-present in China's relationships with nearly all developing countries, Beijing can choose to either highlight and exploit it or downplay it. China's comprehensive "package" approach (discussed immediately below) magnifies the perception of asymmetry, while egalitarian diplomacy and calls for "brotherhood" and "equality" diminish it. Regional forums like FOCAC and the China–Community of Latin American and Caribbean States (CELAC) Relations Forum invariably alternate locations between China and different partner countries in these regions. Symbolically, this places China on par with entire regions and practically it enhances Beijing's already disproportionate agenda setting power. Beijing never fails to play the impressive and gracious host, with banquets replete with constant references to solidarity, state-sovereignty, and the equality of all nation states.

Comprehensive Engagement

Chinese foreign policy involves "multi-centric, multi-layered and multi-pivotal sub-networks of regional and international cooperation that are interconnected and interwoven," explained former Vice Minister of Foreign Affairs He Yafei.[22] Chinese foreign policy also now emphasizes a broad array of collaborative enterprises including foreign aid, educational and cultural exchanges, media cooperation, military assistance and training, and political cadre training. Beijing looks to combine these elements (discussed individually below) into a comprehensive package that creates synergies among China's various interests and allows the state to target resources and apply leverage to achieve its objectives. The breadth of Beijing's "comprehensive diplomacy" is well illustrated in its November 2016 white paper on Latin America and the Caribbean, which lists five broad areas of cooperation (i.e., political, economic, social, cultural, and peace and security) subdivided into 37 specific programs.

China's economic diplomacy, party-to-party relations, military diplomacy, and cultural outreach is often woven into a package that appears irresistible. China's policy banks have become the developing world's go-to lenders. Between these, and its massive state-owned commercial banks, China has 20 of the largest 100 banks in the world (ranked by total assets).[23] China's state-owned and semi-private infrastructure and telecoms firms have become the face of the country's overseas presence, building railroads, dams, airports, highways, and fiber optic networks for dozens of countries.

To be sure, not all of China's overseas engagement is state directed—or even directly state supported. Chinese small and mid-sized Chinese entrepreneurs (which account for a rapidly growing, and often unaccounted for, share of overseas trade and investment) generally operate independently in the developing world.[24] Even large SOEs target deals based primarily on prospective profitability, and they have proven willing in rare cases to resist political pressure to invest in deals they deem unpromising.[25] Nevertheless, Beijing can influence investment decisions and frequently does so to further its political objectives.

While economic tools are perhaps the most persuasive in Beijing's toolkit, China's comprehensive engagement goes beyond economics, and aims to build a stable, multifaceted, and mutually beneficial set of bilateral relationships. Chinese leaders have recognized that broader relationship must be "high-quality" and go beyond profits to include a "sense of justice" (义利观).[26]

Interlocking Engagement

While all major states conduct diplomatic activities at the *bilateral*, *regional,* and *global* levels, China's engagement consists of a particularly tight latticework of institutionalized relationships, and its focus on creating or interfacing with regional organizations is distinctive in the degree, if not type, of effort involved. By building a dense network of interlocking relationships, Beijing hopes to build a stable and mutually reinforcing structure that will further its interests.

Although China's creation of regional organizations is among the most distinctive features of Beijing's approach to the developing world, its bilateral relations remain the foundation. Multilateral forums boost legitimacy and visibility, but binding deals are primarily pursued bilaterally. China's approach towards individual countries is tailored in accordance with Beijing's specific interests there. China's relations with nearby states are generally deeper and more complex, with a mix of political, and economic interests, and sometimes territorial disputes, at play. Beijing's more distant relationships, by contrast, tend to prioritize economic objectives. China's relations with emerging major developing powers (including the BRICS countries and the developing members of the G-20) cut across regional lines and also tend to be multidimensional—with several overlapping political, economic, and security components.

Across the developing world, Beijing has deepened its bilateral relationships and maintains "strategic partnerships" with some 67 states.[27] Within each region, Beijing places considerable emphasis on its relations with large and important anchor or "hub" states where circumstances of geography, politics or economics make relations with China particularly propitious. These relationships tend to receive more attention in Beijing and be relatively stable over time. In East Asia, they include Indonesia and Thailand; in South Asia, Pakistan and India; in Central Asia, Kazakhstan; in Africa, South Africa, Egypt and Ethiopia; in the Middle East, Iran; and in Latin America, Brazil and Argentina. This list is not definitive, and has and will continue to evolve over time. For example, some states, like Venezuela under Hugo Chavez, received special attention and financing from Beijing for a limited period of time for political reasons. Small, but strategically located states, like Cambodia and Laos, are more susceptible to Chinese influence, and have served as useful "nail-house" votes in consensus-governed ASEAN.

The pattern of deepening engagement with regional institutions is replicated across every developing region. Beijing established relations with ASEAN in 1991, and today is involved in eleven ASEAN ministerial-level mechanisms across a wide range of economic, political, cultural, and security areas. It has maintained an ambassador to ASEAN since 2008, and has participated in the China-ASEAN Free Trade Area since 2010.[28] In Latin America, China was admitted as a permanent observer to both the Organization of American States (OAS) and Latin American Parliament in 2004. In January 2015, Beijing and Latin American leaders held the inaugural meeting of the China-CELAC Forum, at which Xi Jinping established a target for Chinese investment in Latin America of $250 billion within ten years.[29] Notably, the CELAC forum, unlike the OAS, does not include the United States.

China's regional diplomacy in Africa is orchestrated largely under the Forum on China-Africa Cooperation (FOCAC), which convened its first Ministerial Conference in Beijing in October 2000. In 2006, FOCAC was elevated to a Ministerial-level Summit, with meetings held every three years. China and Arab partners established the China-Arab States Cooperation Forum (CASCF) in 2004.[30] The CASCF and China-Gulf Cooperation Council strategic dialogue established in 2010 have allowed Beijing to expand relations with the Sunni-dominated Gulf States, which had been limited by China's close relations with Shia Iran.[31]

Since the 1980s, China has become an increasingly active contributor to international institutions. China's participation reassures other states that it is committed to the international system, provides venues to advance Chinese interests, and helps "lock in" Chinese policymakers in ways that help reduce conservative domestic opposition to reform. China's expanded involvement in global institutions also serves to highlight and promote Beijing's efforts to lead the developing world by reforming and shaping global institutions. Beijing has pushed for years to change quotas and vote shares in the World Bank, IMF, and Asian Development Bank, although the process has been painfully slow.[32] In the World Bank, it has advocated greater transparency in the selection of the president and an end to Western dominance, and has consistently sought to expand the prominence of the G-20 vis-à-vis the G-7.[33]

IV. BRI and China's Development-first Political-Economic Engagement

BRI (i.e. concessionary debt financing)

Development with Chinese characteristics has gone global. BRI seeks to create a new Sino-centric era of globalization using both traditional tools of Chinese statecraft as well as new types of economic incentives and debt financing arrangements. For two decades, China has promoted a "going-out" policy among its SOEs. Financing for Chinese-built projects in developing countries comes from a variety of sources, the most important being China's policy banks established in 1994 to finance projects important to Chinese economic growth. The Export-Import Bank of China (China Ex-Im Bank) and the China Development Bank provide large volumes of soft loans to developing countries under the condition that they hire Chinese SOEs to complete projects.[34] The loan portfolio of these two banks and 13 regional funds exceed the $700 billion outstanding loans from all six western-backed multilateral banks combined (including the World Bank, Asian Development Bank, Inter-American Development Bank, European Investment Bank, European Bank for Reconstruction and Development, and African Development Bank).[35]

When Chinese leaders conduct summit meetings, they often travel with large business delegations and sign MoUs worth hundreds of millions if not billions of dollars. In Islamabad in April 2015, for example, Xi Jinping and Pakistan's President Nawaz Shari signed 51 MoUs worth nearly $28 billion as the first phase of a larger Pakistan-China Economic Corridor Project said to be worth more than $50 billion.[36] During the December 2015 FOCAC meeting, Xi Jinping pledged some $60 billion in funding support, mostly in the form of loans and export credits and $5 billion in assistance to Africa.[37] Once terms are reached with a host country, funds may be transferred directly into the Beijing-based bank accounts of China's state-owned enterprises, which execute the project using Chinese materials and labor.

The dollar values discussed at these meetings hold out the promise of profits and economic growth for smaller partner nations. But MOUs are, of course, not legally binding contracts and many do not reach fruition or remain decades in the future. Others involve deals for which negotiations had been ongoing (in some cases for years), but which are pushed forward to correspond with a political meeting or leaders' summit.

In October 2013, the BRI became the overarching framework for this effort. Somewhat confusingly, the "belt" portion is continental, while the "road" portion is maritime. The Silk Road Economic Belt (SREB) runs through Central Asia, West Asia, the Middle East, and Europe. The Maritime Silk Road (MSR) connects China to countries in Southeast Asia, Oceania, and parts of North and East Africa—the South China Sea, South Pacific, and Indian Ocean regions. Designed to improve connectivity between China and more than 60 countries, BRI is overseen by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce, all under the auspices of the State Council.[38] Projects include virtually all types of transportation infrastructure, including rail, roads, ports, airports, electricity generation, telecommunications and various other forms of connectivity.[39]

In October 2013, the same month that BRI was introduced, Xi Jinping announced China's intention to establish the AIIB, which will complement the BRI initiative. The AIIB began operations in December 2015 with 57 founding member states—37 from Asia and 20 outside of it.[40] Initial capital was $100 billion, about two-thirds of the capital of the Asian Development Bank and about half that of the World Bank.[41] Although the AIIB is headquartered in Beijing, its president reports to an international board, and although China holds the largest voting bloc (26 percent) it remains a minority stakeholder. Beijing has also created the Silk Road Fund, backed by China's sovereign wealth fund but open to private investors.[42] Established in December 2014, the Silk Road Fund is capitalized at roughly $55 billion.[43] The AIIB's slow start and the Silk Road Fund's limited scale means that the preponderance of financing for BRI projects come from China's policy banks.[44]

While there are many unanswered questions about the initiative, it is clear that BRI takes China's finance and infrastructure construction efforts to a new, and far riskier, level. Beijing intends to allocate at least $1 trillion to the initiative, and scores of multinational corporations, both Chinese and foreign, are angling take full advantage.[45] The framework has subsumed many projects that were being considered long before BRI was launched, but the unquestioned political backing implied by writing BRI into the CPC constitution may lead to more projects being launched with less careful assessment of likely risks and returns. Because these projects involve loans, heavy BRI funding may exacerbate the debt problems of already poor states and further burden deeply indebted Chinese banks. China now owns more than half of some African nations' foreign debt, and many expect Beijing will have to write off significant portions in the years ahead.

Investment

Developing countries play a central role in China's "going out" foreign investment strategy. As early as 1999, China had amassed about $155 billion in foreign reserves and was looking to gain returns while generating work for its SOEs.[46] That year, at the Fourth Plenum of the 15th National Party Congress, Jiang Zemin launched the so-called "going out strategy" encouraging firms to "establish branches overseas" and "explore international markets."[47] Subsequent decisions during the 2000s provided funding mechanisms to facilitate outward investment. China's move outward began slowly—and primarily involved SOEs in the extractive and construction industries—but has diversified and gathered momentum since 2010. China's non-financial FDI flow increased from $3.6 billion (in 2016 USD) in 2003 to some $141.2 billion in 2015—a real compound annual growth rate CAGR of 36 percent.[48]

According to official figures, as of 2015 about 57 percent of China's total (outward) FDI stocks were in developing states (excluding investment in offshore financial centers), with the largest accumulations in Asia (25 percent of total), Africa (12 percent), and Latin America (5 percent).[49] In some sectors, Chinese firms also have their own sizable war chests and may sometimes prefer to invest their own funds. Much of CNOOC's $15 billion 2012 purchase of Canada's Nexen, for example, came from CNOOC's own cash reserves.[50] Notably, although Chinese investment in all these regions has increased markedly over the last decade, it is often not the largest investor. For example, Chinese investments in Africa during 2014 accounted for seven percent of all FDI in the region, far less than France's 21 percent.[51] In 2015, Chinese investment in Africa dropped to just three percent of the global total.[52] China accounted for about 9.5 percent of total FDI in Southeast Asia in 2016, Japan accounted for about 14.5 percent and the United States for about 12 percent.[53] In short, China has gone from having virtually no FDI stake in these regions to being a major player. But it is not the singularly dominant actor it is sometimes portrayed as, but rather one among several important investors.

Trade

Another important BRI objective is expanding and promoting trade, which enables China to leverage comparative advantages to grow its economy—with attendant benefits for the Chinese people and state capacity. Trade growth is not necessarily purely, or even necessarily primarily, a function of state-led promotion activities, but Beijing is using BRI to tip the balance in favor of its firms and suppliers. Chinese corporations, including SOEs, private and semi-private firms, often work closely with state policy banks and diplomats, who are empowered to help promote exports. According to one analysis, Chinese commercial service attaches working in China's African embassies outnumber U.S. Foreign Commercial Service officers working in the region by some fifteen to one.[54]

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The rapid expansion of Chinese trade has become a key driver of GDP growth. GDP grew by a real compound annual growth rate of 9.1 percent between 1978 and 2015, while trade increased by an average of 12 percent. Trade growth has slowed considerably since 2012, partly due to government policies designed to enhance domestic consumption and, more importantly, the slowing of the Chinese economy.[55] China's trade grew by a 3.52 percent in 2014, *shrank* by 9.85 percent in 2015 and shrank again by 4.02 percent in 2016.[56] These trends are even more pronounced in China's trade with developing countries. Private firms accounted for 38.1 percent of trade in 2016.[57]

For China, developing countries have become increasingly important raw material suppliers and are growing markets for its manufactured products. China's trade with developing countries has come to account for an increasing percentage of the country's overall trade volume. In 1990, developing countries represented only 15 percent of total Chinese trade, but by 2000, that figure had grown to 19 percent, and by 2010, it had reached 31 percent. After peaking around 34 percent in 2012, the percentage has plateaued, as China's economic slowdown has reduced the need for raw materials and the price of oil and metals like copper and iron ore has fallen. If and when commodity prices fully recover, developing countries are likely to once again regain their leading position.

The value of China's trade with the developing world was $29.4 billion in 1990 (measured in constant 2016 USD) and rose to $1.2 trillion in 2016 (about 33 percent of China's total foreign trade)—a real CAGR of 15.4 percent—compared to a 12.1 percent CAGR for China's total trade over that period. China's trade volume by region were: Southeast Asia, 12.4 percent of total Chinese trade; the Middle East, 5.5 percent; Latin America, 5.7 percent; Africa, 4.1 percent; South Asia, 3 percent; and Central Asia, 0.9 percent.[58]

Economic Assistance

China provided substantial economic assistance to developing states during the 1950s, 1960s, and early 1970s, but cut back on those expenditures in the late 1970s, 1980s and 1990s as it sought to rebuild its own economic position. Over the last decade, however, foreign aid has reemerged as an important part of the Chinese foreign policy toolkit, and Beijing released white papers on the subject in 2011 and 2014. The budget for foreign assistance has grown rapidly over the last decade, with an average annual increase of 29.4 percent between 2004 and 2009. Between 2009 and 2012, China's aid disbursements totaled $14.4 billion, or about a third of China's total aid from 1950 to 2008.[59] Unfortunately, the Ministry of Commerce, which coordinates China's assistance programs, does not provide year-on-year tracking, complicating systematic evaluation.

Chinese economic assistance comes in three varieties: grant aid (36 percent of the 2009-2012 total); interest-free loans (8 percent); and concessional loans (56 percent).[60] These funds go to support a wide range of programs: emergency assistance, technical aid and instruction, health care and medical facilities, low cost housing, education, state capacity building, infrastructure development, and environmental protection. In terms of distribution, some 52 percent went to Africa over this period, 31 percent to Asian states, and 8 percent to Latin America and the Caribbean.[61]

China's approach to foreign assistance differs in several respects from the members of the OECD's Development Assistance Committee (DAC), private Western donors like the Gates Foundation, and multilateral institutions like the World Bank. Rather than poverty alleviation, China's assistance, particularly its concessionary loan aid, is primarily focused on infrastructure development tied to Chinese business contracts. It is nearly always distributed on a state-to-state basis. Unlike Western countries and institutions which often place economic or political conditionality on their aid, Chinese aid does not require subsequent audits and comes with "no political strings attached."

The predictable result is that Chinese aid is often easier for corrupt foreign leaders to "capture" and channel towards politically important regions, constituencies, and cronies.[62] While China's foreign aid programs could focus more on grants and interest free loans and made more transparent to safeguard against abuse by recipient governments, the approach taken by the DAC states and the Bretton Woods Institutions has also faced criticism. Angus Deaton, who won the 2015 Nobel Prize in Economics for work on poverty, argues that the West's approach to aid "undermines what poor people need most: an effective government that works with them for today and tomorrow."[63] Some therefore favor of China's "development first" approach, with its focus on state capacity and infrastructure.[64]

V. Soft Power with and Political Outreach

Beijing's impetus to become a "cultural major power" (文化大国) predates Xi. A broad conceptual framework was adopted in 2004 under the official formulation "China's peaceful rise," and a subsequent white paper was issued in 2011, as both a guide for Chinese policymakers and an effort to reassure anxious foreigners. Since 2013, however, Xi Jinping has spoken repeatedly on the need to increase China's "soft power" (软实力) by, among other things, creating a compelling Chinese narrative and strengthening Beijing's capacity to convey its message overseas.[65] "Soft power" is the ability of one nation to shape the preferences of others through its appeal and attraction at the popular, elite, or government levels.[66] Because soft power helps shape others' preferences, it increases the perception of congruence between Chinese interests and those of others.[67]

According to Chinese analysts, the nation's history makes it a "cultural major power" with great natural advantages.[68] In 2004, Beijing launched the Confucius Institute program to cultivate the study of Chinese language and culture abroad. According to the Confucius Institute Headquarters website, in 2016 there were 500 institutes around the world. Although these are clustered in developed countries, with 109 in the United States alone, many developing states also host institutes. Skeptics question whether Beijing-backed Confucius Institutes are being used to influence university research agendas and impinge on academic freedoms.[69]

China promotes other types of "person-to-person" exchanges, including foreign students studying in China. Beijing sponsors tens of thousands of foreign youths for training both in their home countries and at Chinese universities and vocational schools. According to the Ministry of Education, there were 442,773 international students studying in China in 2016, up from about 290,000 in 2011. Of foreign students in 2016, some 49,022 received scholarships from the

Chinese government, an increase of 20 percent from 2015.[70] In 2016, more than 264,976 foreign students in China hailed from Asia, but thousands of students are from other developing regions. For at least two consecutive years, the greatest increase was in the number of students from Africa, who numbered some 61,594 in 2016, up 23.7 percent from 2015. China is looking to expand job opportunities for graduates, so it can retain and utilize these young Chinese-speaking foreigners.[71]

China's influence in developing countries has expanded under President Xi, who in 2014 exhorted his comrades: "We should increase China's soft power, give a good Chinese narrative and better communicate China's messages to the world."[72] Chinese language schools, media training, cultural exchanges, educational and training programs, and other forms of aid and assistance have increased China's soft power in many countries.[73]

Meanwhile, Beijing is spending more time and resources hosting and visiting counterparts from developing countries' political parties than ever before. Outreach by the International Department of the Central Committee of the Communist Party of China (ID-CPC) is a historical and ongoing feature of Chinese foreign policy and supplements the diplomacy conducted by state organs (e.g., the MFA) and leaders. The Party's political outreach generally looks to engage in ways that avoids the appearance of intervention in domestic affairs. In autocracies, the ID-CPC may avoid interaction with the opposition, while in liberal democracies, it maintains ties with both ruling and opposition parties.

In Africa, the CPC has expanded its host diplomacy, cadre training, and outreach to political parties in Africa and throughout the developing world. China's training programs are generally oriented towards state capacity building and include, for example, training programs on the management of agricultural technology programs. Other elements, like the political cadre training done by the International Department of the CPC Central Committee and media training programs run by the official Xinhua News Agency, are explicitly political and are intended to improve foreign perceptions of China and legitimize the ruling party. In 2014 and 2015, some 2000 officials of South Africa's African National Congress (ANC) were trained by the CPC, and Beijing is financing the ANC Political School and Policy Institute, modeled on the China Executive Leadership Academy in Shanghai.[74] Ethiopia was perhaps the earliest and most eager student of Chinese cadre training, and has dispatched delegations regularly to China since 1994.[75] During a public talk at Fudan University in Shanghai in May 2017, Arkebe Oqubay, a Minister and Special Advisor to the Prime Minister of Ethiopia, identified party-to-party relations as the first of three Sino-Ethiopian links (along with government-to-government and people-to-people).[76]

Over the last decade, led by Xinhua and CCTV, China's state-run media has advanced an initiative to enhance China's influence and international image.[77] Since 2005, Xinhua has emphasized cooperation, content sharing, and media training programs with dozens of news outlets throughout the developing world.[78] China wants to improve younger generations' perceptions of its political system and gain elite support to counter what Beijing sees as Western efforts to portray Chinese practices in an unfavorable light. In 2017, for instance, Renmin University in Beijing hosted a 10-month development studies and media exchange with 48 students from Africa, South Asia, and Southeast Asia. Training topics include China's political, cultural, media and economic studies. Counselor Liu Yutong, Chief of the Public Diplomacy Division at the MFA's Information Department, welcomed the journalists with a speech about Chinese stability and growth—and questioned the wisdom of Britain's exit from the EU and the U.S. election of Donald Trump.[79]

VI. Evaluating BRI and Countries' Perceptions

Chinese engagement with the developing world has undoubtedly helped Beijing enhance the perceived legitimacy of the CPC, improve living standards for the Chinese people, and expand Beijing's power and influence around the world. China has been largely successful in achieving these aims, but it has also not been without setbacks, and the scale of risk has risen together with its overseas profile in recent years. China's BRI and the "going out" strategy before it open developing markets to Chinese-made products and expanded access to the raw materials China needs to meet domestic demand. Its investments and loan financing for infrastructure, catalyzed through BRI initiative, have provided sustained opportunities to redeploy China's considerable productive capacity in the construction, telecom and other sectors. All of this facilitates China's pursuit of its centenary goals, the lifting of living standards for the Chinese people, the power of the Chinese state, and (most importantly for China's leaders) the perceived legitimacy of the Communist Party.

While China's BRI has been a diplomatic success to date, its future is uncertain. At home, Chinese leaders understand that economic growth is overly dependent on investment and exports, though they remain ambivalent about rebalancing towards consumption-led growth. At the same time, Beijing's policy banks regularly finance projects regarded as too risky by Western counterparts and the decline in commodities prices has exacerbated that risk.[80] China's existing loans to friendly governments in Zimbabwe, Venezuela, and Sri Lanka already portend tens of billions of dollars in potential losses. China provided roughly $60 billion in loans and aid to Venezuela between 2007 and early 2016, and, as of mid-2016, the latter still owed China $20 billion. But with oil prices stuck near $50 per barrel and Venezuela unable to service its debts fully, Beijing finally cut off new lending in September 2016.[81]

BRI represents a massive and unprecedented expansion of connected lending to international borrowers that enmeshes the already deeply indebted Chinese banking system in some of the world's most precarious economic and political environments. The lending program's sheer size requires Chinese government and party organs, many with little experience in international operations, to vet scores of projects across a myriad of regulatory, linguistic, and cultural environments. Many poor countries, especially in Africa, are happy to take cheap Chinese loans now and let future leaders and citizens pay them back. China's response has often been to grant loan forgiveness and then provide more loans, creating a serious moral hazard problem. Many governments are banking on China's continued largesse and are thus happy to take whatever they are offered. However, Beijing, which saw its foreign reserves drop by more than 20 percent between 2014 and 2017, cannot write off bad loans *ad infinitum*.

BRI could also open new opportunities for fraud and corruption. China, which itself ranks an unimpressive 83 on Transparency International's 2015 corruption index, is building hundreds of projects in some of the least accountable countries in the world, such as Turkmenistan (154), Kyrgyzstan (123), Cambodia (150), and Myanmar (147). On an OECD 8 point scale of risk by recipient country, the portfolio of states that China's banks extended loans between 2013 and 2015 entailed an average risk rating a full point higher (i.e., more risky) than the World Bank's.[82] Xi himself seemed to recognize the challenges when he called for a "stable, sustainable and risk-controllable financial security system" to supervise the BRI initiative.[83]

In the political realm, Chinese diplomacy has generally been successful in developing relationships and gaining influence. Beijing has certainly seen failures and setbacks, and has addressed such problems by expanding the depth and breadth of its bilateral political relations with developing states and through existing and newly created multilateral regional organizations. By institutionalizing relations via diplomatic arrangements, party-to-party dialogues, economic agreements, military forums, and person-to-person exchanges, Beijing has created numerous overlapping buffers that enable the rapid return to normal relations if unexpected crises disrupt the relationship.

China's overseas image is generally favorable, though it varies widely, depending on location and issue. According to a 2015 Pew survey conducted in 27 countries, an average of 55 percent of respondents hold a favorable image of China, compared to 69 percent for the United States. China is viewed most favorably in Africa (average of 70 percent in nine countries) and Latin America (57 percent average in six countries), while the perception is less positive in regions closer to China, where security concerns weigh heavily, and in the Middle East, where many have reservations about China's treatment of its Muslim Uighur population. Those surveyed also had a dim view of China's respect for human rights, with just 34 percent having a favorable impression.[84]

Influence, which might be defined as the ability to bring about changes in another state's intended behavior in ways that advance one's own aims, is notoriously difficult to measure, as it involves counter-factual analysis. That said, China appears to have successfully influenced other states on issues of marginal importance to the other state, where the costs of taking the desired action are small. Vague official statements supporting China's position on the South China Sea, for example, are costless for African and Middle Eastern states. Similarly, acquiescence to Beijing's single-minded efforts to marginalize Taipei and the Dalai Lama, also have minimal political costs for states beyond China's immediate periphery. South Africa, however, paid some price for acceding to China's demands when it refused the Dalai Lama a visa, prompting the cancelation of a conference of Nobel laureates in Pretoria.[85]

There are few clear cases of China's ability to translate its combined economic, political, military and soft influence into favorable outcomes when the stakes are high for the other state. However, China's efforts to minimize opposition to its consolidation of its territorial claims in the South China Sea arguably represent a case of at least partial success. Beijing has achieved a *fait accompli* in the South China Sea by reclaiming 3,200 acres of land on seven features and thereby turning reefs and rocks into significant military outposts.[86] Such measures have alarmed the states most directly affected, including Vietnam and the Philippines, and fueled wariness in larger regional states like Indonesia and Malaysia. Beijing has responded by offering a blizzard of trade and aid proposals and by leveraging its asymmetric relationship with Cambodia and Laos to thwart joint statements by ASEAN.

China's impact on the economic, governance, and environmental welfare of the partner states in the developing world is mixed. China is, by far, the largest trade partner of developing states in every part of the world, and the loan portfolio of its policy banks and regional funds exceeds that of all Western multilateral banks combined.[87] Chinese activity is stimulating growth and building infrastructure in regions that are chronically short of capital and investment. Even in Southeast Asia, where Japan, the United States, and other Western countries are major actors, most states suffer from infrastructure financing deficits.[88] In sub-Saharan Africa, China's aid and investments are distributed across a wider range of recipient states than is assistance from Western states and international organizations. Some of the difference is explained by Beijing's willingness to engage the least savory African regimes, but it also reflects the more limited (and focused) interests of Western firms, states, and international organizations in Africa.

Needless to say, countries have been affected differently by their engagement with China. During the commodities boom of the 2000s and early 2010s, growth rates rose rapidly among resource-rich countries. At the same time, imports from China had significant displacement effects on domestic African and Latin American producers of labor intensive manufactured products, like textiles and food processing.[89] The pattern was more mixed in East Asia, where the region's integrated production chains contribute to the specialization among states.[90] Roughly 50 percent of Indonesian exports to China are raw materials, while Taiwan, Korea, and Malaysia export mostly intermediate, capital, or consumer goods.[91]

China's corporations have a poor record of environmental protection at home, and they have contributed to degradation overseas, especially when local governments suffer from poor capacity, weak oversight, or endemic corruption. Some firms have been accused of cutting corners, ignoring safety standards, using secondhand or low-quality materials and equipment, and building environmentally destructive projects. Complaints have come from Laos, Vietnam, and Cambodia regarding environmental damage and droughts from Chinese hydropower projects along the Mekong River; from Indonesia regarding an ill-fated, over-budget coal power plant and a failed high-speed rail project; from Myanmar regarding Chinese firms clear-cutting forests; and from Korea and West Africa about harm done to the marine environment by Chinese trawlers fishing practices.[92]

Facing growing public resentment at home, the Chinese government has become more attuned to environmental issues. It has passed new environmental regulations and promoted the State Environmental Protection Administration to ministerial status, changing its name to the Ministry of Environmental Protection in 2008.[93] Both the Chinese state and its companies have adopted or signed international compacts designed to protect the environment overseas.[94] Nevertheless, enforcement responsibilities and oversight remains weak at home, and Beijing has even more difficulties policing its corporations – especially small- and mid-sized private firms – overseas. China's lack of conditionality, lax oversight, and poor corporate citizenship contribute to, or at least do not discourage, rent seeking and corruption in partner states.[95] The problem is likely to worsen as rising labor costs in China push more "dirty" manufacturing to relocate to cheaper and less well-regulated developing countries.

China's expansion in the developing world may also adversely affect the spread of liberal values. After a remarkable wave of democratization from the mid-1970s to the mid-2000s, the tide appears to have turned. According to the 2017 Freedom House report, those countries experiencing a net decline in freedom have exceeded the number experiencing a net gain every year between 2006 and 2016. In 2016, 67 countries saw declines while just 36 improved.[96] In some countries, like Russia, Venezuela, and Zimbabwe, autocrats have maintained the facade of democracy (e.g., elections and private press outlets) while stripping them of all meaning.[97] Others, like Ethiopia, seem to have more borrowed directly from China's authoritarian state-led development model.

China's attractiveness as an economic model has increased due to its sustained economic growth and as neoliberal economic practices (broadly known as the Washington Consensus) have lost the confidence of policymakers in developing states – particularly in the wake of the global financial crisis of 2008. More recently, however, reduced growth rates and rising debt levels in China have diminished the attractiveness of the "China model." Moreover, with the decline in commodities prices, Chinese investments and debt financing for resource-related infrastructure has saddled some countries with unsustainable debt again diminishing the popularity of China as both partner and model. Only time will tell whether the billions of dollars Beijing has spent on enhancing and projecting its soft power – the Confucius Institutes, CPC cadre training programs, Xinhua media training, film festivals, think-tank exchanges, student scholarships, etc. – will succeed in improving perceptions of China.

Despite these efforts to enhance Chinese "soft power," however, many countries on China's periphery continue to harbor deep concerns about Beijing's long-term ambitions and others are deeply ambivalent about excessive dependence on trade with and investment from China. Addressing these concerns while pursuing Beijing's material goals will challenge Chinese foreign policy leaders for the foreseeable future.

VII. Implications for the United States

Beijing and Washington's relations with the developing world are not primarily zero-sum. To a significant extent, interests are parallel—that is, separate and non-overlapping in either a competitive or cooperative sense. American firms benefit from improved global growth and improved economic efficiencies that result from China's policy banks financing tens of billions of dollars' worth of transportation infrastructure around the developing world. Chinese raw material purchases from Africa, for instance, are a link in the global supply chain. They supply Chinese manufactures, which, in turn, sell their finished products to furniture stores from Boston to Beijing to Bangkok. But although Washington and Beijing pursue their economic and political interests vis-à-vis developing states in ways that often neither directly benefits nor harms the other, that dynamic could change if the Sino-U.S. relationship evolves dramatically for the worse or if the BRI precipitates a massive raft of loan defaults that destabilizes the international economic system.

In some important respects, American and Chinese interests coincide. Both benefit from stability and prosperity in the developing world, yet they attribute these outcomes to different sources. Washington has long maintained that free and fair elections and an open society are essential for long-term political stability, while Beijing believes that economic development is the primary cause.[98] The bloody aftermath of the Arab Spring has dampened Washington's interest in actively supporting democratic change through revolutionary means, though it continues to promote democratic and liberal values. After the election of Donald Trump, it remains to be seen whether Washington will revert to traditional modes of active interventionism or adopt a more isolationist "America first" foreign policy.

The United States would be well served to deepen its political and economic presence and influence in the developing world. By many standards, U.S. engagement with and assistance to the developing world in areas from health care and food aid, to institution-building, environmental leadership, military engagement, media, NGOs, and a raft of other areas remain deeper and better considered than China's. Yet many of these efforts gain little attention and are not well understood. Of much greater concern, U.S. efforts could be severely undercut should funding for the U.S. Department of State, the U.S. Agency for International Development, and other parts of the U.S. foreign policy establishment be significantly reduced. The U.S. government is already far less involved in promoting trade and investment than China. This puts U.S. firms at a disadvantage in competing with Chinese counterparts, and it undermines the larger effort to maintain U.S. relevance in the developing world. Washington should increase funding for the Foreign Commercial Service, U.S. Ex-Im Bank, and other federal programs that improve U.S. corporations' international competitiveness. The United States has the resources to maintain its global leadership position; the question in these uncertain political times is whether it will choose to do so.

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OPENING STATEMENT OF TOBIAS HARRIS
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HEARING CO-CHAIR TOBIN: Thank you.

You're getting us to think extra fast.

[Laughter.]

HEARING CO-CHAIR TOBIN: Wow. Wow. And you can choose whatever pace you wish, Mr. Harris. Slow or fast. We will adjust.

Thank you, Dr. Eisenman.

MR. HARRIS: Good afternoon, commissioners. Thank you for having me. Thank you also to the staff for just working with me to get me here.

In the brief time I have today I want to talk about Japan's changing approach to the BRI because right now that's actually a moving target as we speak, how the BRI fits with Japan's broader regional economic strategy, and what lessons, finally, the U.S. can learn from Japan.

The Japanese case is instructive because it shows that, on the one hand, building a positive relationship with China may increasingly require engagement with the BRI in some form. The Abe government has studied BRI participation as part of a broader diplomatic campaign to stabilize Japan's relationship with China as the two countries mark the 40th anniversary of their Treaty of Peace and Friendship in 2018.

On the other hand, however, Japan's long road to BRI cooperation shows that it is possible, and even necessary, for Asia's wealthier democracies to pursue that own development strategies to help BRI members minimize their dependence and maximize their freedom of action.

Japan may not be able to match China's promises dollar for dollar, but through its willingness to increase its lending, implement reforms to its foreign assistance institutions, and promote private investment by Japanese companies, Tokyo has arguably outlined a possible response to the BRI, even as it considers participating in the Initiative.

After years of keeping its distance from the BRI and with the United States actively opposing the creation of the related Asian Infrastructure Investment Bank, the Abe government is developing a strategy of limited cooperation with the BRI. Japan's BRI strategy is still a work in progress so any conclusions at this point are tentative.

However, what we know thus far suggests that the Abe administration is developing a strategy whereby Japanese public financial institutions, like the Japan Bank for International Cooperation, JBIC, and the Nippon Export and Investment Insurance Corporation, NEXI, will provide financial support for Japanese corporations working on BRI projects, provided the projects satisfy certain conditions, including transparency, profitability, debt sustainability for the borrowers, and no possibility that the infrastructure could be converted to military purposes.

In this emerging policy, the Abe government is clearly trying to make cooperation with China under the BRI serve Tokyo's broader foreign economic policy goals rather than shifting its regional strategy to prioritize the BRI.

In the five years since Prime Minister Shinzo Abe returned to power, his government has promoted a massive increase in infrastructure exports as part of its Abenomics program for revitalizing Japan's economy. It issued, in February 2015, an updated Development

Cooperation charter that articulated the need for "quality growth" that is inclusive, sustainable and resilient.

Thereafter, it announced in May 2015 the Partnership for Quality Infrastructure, which entailed a significant increase in funds for Japan's public lending agencies and the Asian Development Bank, the ADB, as well as reforms to lending practices.

It also announced in May 2016 the "High-Quality Infrastructure Export Expansion Initiative," which included an additional increase in funds and further lending reforms.

And then most recently, in 2017, announced that it would with India pursue an Asia-Africa Growth Corridor, a maritime connectivity project to enhance trade links between South and Southeast Asia and East Africa.

Additionally, even as Mr. Small discussed India has remained out of the BRI, Japan has stepped up its official development assistance and public and private lending to India, demonstrating how China's rivals can use regional anxieties about the BRI to their advantage.

These steps plus Japan's embrace of new rules for trade and investment in East Asia through the Trans-Pacific Partnership, which as we saw this week is now moving forward without the United States, amount to a comprehensive strategy for competing with China for influence across the Indo-Pacific.

As such, the Abe government is not ceding leadership in regional development to China, but it is recognizing that the Initiative does bring much needed investment to the region--investment that Japan and the ADB have long recognized is necessary--and that whether or not Japan participates, the BRI will go forward and could reshape the region over the coming decades.

By endorsing participation by Japanese firms, the Abe government will tacitly acknowledge this reality and try to find ways for Japan to profit from the BRI and perhaps shape the Initiative on the margins in a way more friendly to Japanese interests and values.

Having articulated and pursued an independent strategy, Tokyo can pursue cooperation with China on its own terms.

I think at this point it's worth noting the contrast with Australia, another Indo-Pacific maritime democracy with a complex interdependent relationship with China. Australia has shared Japan's interest in high-quality infrastructure to meet Asia's infrastructure gap, but unlike Japan has not revamped its development institutions or increased its development assistance and lending.

Unlike Japan, Australia joined the AIIB as a founding member in 2015, which perhaps signaled a greater willingness to work with China on infrastructure than Canberra intended. In the three years since Australia joined the AIIB, it has lurched between talks with Beijing on BRI participation and hostility and perhaps even fearmongering regarding China's intentions, including most recently a direct jab at Chinese development assistance in the South Pacific by Australia's Minister for International Development.

Whereas Japan has kept its distance from the BRI and articulated its own regional development strategy, Australia was quick to lend its support for a key institution but grew ambivalent and is now struggling to articulate an independent development strategy.

In fairness, this partly reflects Australia's smaller economy and smaller resources, which has led Australia to focus more on soft infrastructure rather than hard infrastructure. But precisely for that reason, Australia needs to identify its priorities, upgrade its institutions, perhaps creating development finance institutions like Japan's, and collaborate with regional partners to promote high-quality infrastructure investment.

If the BRI will be a fixture in Asia's economics and politics, the region's developed democracies need their own plans for promoting development, particularly in the region's middle income countries. Without a regional trade strategy aimed at middle-income Asia, it is imperative for the U.S. to develop a development strategy that uses bilateral foreign aid, cooperation with the ADB and other multilateral lending institutions, and perhaps most importantly incentives to encourage private infrastructure investment in South and Southeast Asia.

Given Japan's existing capabilities and influence, the U.S. should coordinate closely with Japan and follow Tokyo's lead in stressing the importance of high-quality infrastructure. Developing a joint regional development strategy could be an appropriate agenda item for the U.S.-Japan Economic Dialogue, as well as for future meetings of the U.S.-Japan-Australia-India quadrilateral.

Both the administration and Congress deserve credit for taking steps to maintain and even expand U.S. capacity for global development, first by preserving the Export-Import Bank and the Overseas Private Investment Corporation, OPIC, and going forward, through pending legislation to roll OPIC into a new, more robust development finance corporation.

Strengthening capacity for supporting private efforts to meet Asia's infrastructure needs will make it possible for the United States to work more closely with its partners to develop an allied approach to regional development that may not supplant BRI but will give the developing countries of South and Southeast Asia more freedom of action even as Chinese investment proceeds.

With that, I will conclude my prepared remarks. Thank you for your time.

PREPARED STATEMENT OF TOBIAS HARRIS
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Testimony before the U.S.-China Economic and Security Review Commission

China's Belt and Road Initiative: Five Years Later
Regional Reactions and Competing Visions

25 January 2018

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Introduction

Thank you for giving me the opportunity to testify before the U.S.-China Economic Security Review Commission today on the subject of regional reactions to China's Belt and Road Initiative (BRI). China's USD 1tn program of infrastructure investment presents opportunities for its sixty-five member countries to develop, while also raising risks of over-dependence on Chinese investment, unsustainable borrowing, and high environmental and social costs for host nations.[1]

The risks and opportunities of the BRI extend even to Asia's developed democracies, which already have complex economic relationships with China and interests in promoting development across Asia. In my remarks today I will focus on how Japan – which is in the process of developing a strategy of limited engagement with the BRI – has responded to the BRI, touching briefly on Australia to show some of the difficulties presented by the BRI. The Japanese case is particularly instructive because it shows that on the one hand, building a positive relationship with China may increasingly require engagement with the BRI in some form, while, on the other hand, showing that it is possible and even necessary for Asia's wealthier democracies to pursue their own development strategies to help BRI members minimize their dependence on China and maximize their freedom of action. Japan may not be able to match China's promises dollar for dollar, but through its willingness to increase its lending, loosen rules and implement other reforms to its foreign assistance institutions, and to promote private investment by Japanese companies Tokyo has arguably outlined a possible response to the BRI even as it considers participating in the BRI.

Japan's approach to the BRI not only provides a model for the US consider as it formulates its own Asia policies, but also is an opportunity for the US to strengthen its relationships with Japan, Australia, and, increasingly, India, as they all determine how to respond to the BRI.

Japan's shift on the BRI

As we meet today, Japan's approach to China's Belt and Road Initiative is a moving target. After years of keeping its distance from the BRI – and, with the United States, actively opposing the creation of the related Asian Infrastructure Investment Bank (AIIB) – the Abe government has signaled that it is developing a strategy of limited cooperation with the BRI. Japan's BRI strategy is still a work in progress, so our discussion today must by necessity be tentative. However, what we know thus far suggests that the Abe administration is developing a strategy whereby Japanese public financial institutions like the Japan Bank for International Cooperation (JBIC) and Nippon Export and Investment Insurance (NEXI) will provide financial support for Japanese corporations working on BRI projects, provided the projects satisfy certain conditions, including transparency, profitability, debt sustainability for the borrower, and no possibility that the infrastructure could be converted to military purposes. Early reports suggest that public finance will focus on backing joint Japan-China projects regarding the development of renewable energy infrastructure in third countries, promoting high-speed industrialization in third countries, and the proposed rail connection between China and Europe.[2]

These conditions are largely consistent with the Abe administration's focus on "high-quality" infrastructure investment, and, as such, do not necessarily signify a sharp break with its prevailing approach to regional development or its broader foreign economic policies. Instead, from what we know of the Abe government's approach, the emerging policy shift is likely driven by pragmatic calculations that recognize the role that China and the BRI will play in regional development, infrastructure investment, trade facilitation, and connectivity not just within Asia but between Asia and other regions. The Abe government is not ceding leadership in regional development to China but it is recognizing that the initiative does bring much-needed investment to the region – investment that Japan and the Japan-led Asian Development Bank (ADB)[3] have long recognized as necessary – and that whether or not Japan participates, the BRI will go forward and could reshape Asia and much of the developing world over the coming decades. By endorsing participation by Japanese firms, the Abe government will tacitly acknowledge this reality and try to find ways for Japan to profit from the BRI and perhaps shape the initiative on the margins in a way more friendly to Japanese interests and values.

The Abe administration's shift is part of a broad recalibration of Japan's foreign economic policies since the United States withdrew from the Trans-Pacific Partnership in January 2017. From Abe's decision to join TPP talks in March 2013, the regional trade pact had been the predominant focus of the Abe administration's foreign economic policy, as it provided a framework not only for addressing longstanding issues in its bilateral relationship with the United States but also established "high-quality" rules that would govern trade and investment in the Asia-Pacific in the twenty-first century. While TPP's origins predate the BRI, as the talks proceeded, it became increasingly clear that for Japan, TPP was at least part of its answer to the BRI. While not explicitly focused on helping middle-income economies develop, the inclusion of Vietnam and

Malaysia and the prospect of other Southeast Asian countries joining the bloc in the future suggested an approach to development in which developing countries would, in exchange for access to the markets of the US and other wealthy members (making them the agreement's biggest beneficiaries in GDP terms[4]), undertake politically difficult domestic reforms that could fundamentally restructure their economies. As long as the Abe administration was focused on implementing TPP as it was signed in February 2016, it could afford to remain aloof from the emerging China-led framework for regional development.

US withdrawal severely undermined the concept of TPP as development model, forcing the Abe government to rethink its overall approach to trade, investment, and development in Asia. While Tokyo eventually decided to lead the bid to revive the TPP without the US – now the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) – without the US, it was not nearly as beneficial or as appealing to the developing-country members, and Vietnam and Malaysia repeatedly signaled their skepticism about the post-US TPP. The Abe government appeared more supportive of the Regional Comprehensive Economic Partnership (RCEP) after the US left TPP, but the larger, more economically diverse membership of RCEP meant that it was never going to satisfy Japan's desire to advance higher standards for regional integration – and it is possible that the Abe government's insistence on raising RCEP's standards, which Abe and other officials repeated after the US withdrew from TPP, indicated that Tokyo was more interested in slowing RCEP's progress rather than guiding them to completion. The other difference, of course, is that RCEP included China, meaning that unlike TPP it would not be a tool for reshaping China's economic practices or help Asian countries reduce their dependence on China. Therefore, after the US withdrawal from TPP, Japan was left with a trade agreement that did not have the same appeal to middle-income Asia while facing a China that was aggressively expanding its ambitions for integration through the BRI framework.

The result is that beginning in spring 2017 the Abe administration began articulating a multi-faceted updating of its foreign economic policies. Despite Abe's dismissing the value of TPP without the US on multiple occasions,[5] the prime minister decided that Japan would throw its weight behind efforts to revive the agreement without the US and set an ambitious goal of finalizing the revisions by the Asia Pacific Economic Cooperation (APEC) summit in Vietnam in November 2017. Additionally, it would also push to conclude an economic partnership agreement (EPA) with the European Union, talks for which had begun in 2013. By pursuing these agreements, especially the TPP-11, Japan would show that even as the US shifted away from multilateral to bilateral and unilateral approaches to trade, the multilateral trading system was still deepening on multiple fronts – and Japan was still invested in advancing new rules to govern commerce in the twenty-first century. Meanwhile, in May Japan and India announced the creation of the Asia-Africa Growth Corridor (AAGC), an infrastructure investment initiative that appeared to be a direct challenge to the BRI.

At the same time, however, the Abe government began quietly but purposefully signaling to Beijing that Japan is open to participating in the BRI in some capacity. Even as Japan was resurrecting TPP and assuming leadership of the bloc of eleven, the Abe government began making overtures to Beijing. The clearest sign of a shift came in mid-May, when Abe dispatched Takuya Imai, his principal private secretary, along with the Liberal Democratic Party's (LDP) secretary general Toshiro Nikai, widely regarded as a leading LDP "China hand" to Beijing to attend the Belt and Road Forum. During this visit, Nikai met with Xi and conveyed a letter from Abe expressing the prime minister's hopes for an exchange of visits and more constructive bilateral engagement. This delegation communicated the Abe administration's seriousness regarding rapprochement with Beijing, in which cooperation under the auspices of the BRI could play a central role.

When Abe met Xi on the sidelines of the G20 in Hamburg in July 2017, the joint statement included the first mention of BRI – "Japan and China will discuss how to contribute to the stability and prosperity of the region and the world, including the One Belt, One Road initiative."[6] By November, when Abe met Xi and Chinese Premier Li Keqiang on the sidelines of APEC, the language had been upgraded: the joint statement with Xi now said, "The two sides *shared the view* [emphasis added] that they will together discuss how Japan and China will contribute to the stability and prosperity of the region and the world, including the 'the Belt and Road' Initiatives."[7] The joint statement from Abe's meeting with Li two days later included the same language but also noted:

> Both sides shared the view that Japan and China should cooperate with each other in order to deepen and expand their win-win economic relationship, and that developing Japanese and Chinese businesses in third countries will be beneficial not just to Japan and China but to the development of the countries concerned as well. They also shared the view that exchanges in the business community should be promoted.[8]

This point from the Abe-Li summit is particularly important because it directly anticipates the policy approach the Abe government eventually indicated it would adopt in December 2017, whereby it would provide financial support for Japanese firms working on BRI projects but not directly participate in the BRI or join the AIIB. This trajectory has continued since the start of 2018. On 10 January, Abe met with Nikai and Yoshihisa Inoue, secretary-general of the LDP's coalition partner Komeito (which has its own connections to China) and reiterated that Japan's cooperation with the BRI would be on a case-by-case basis, with decisions made on the basis of the aforementioned criteria as well as from consideration of China's preferences.[9]

Political drivers

As surprising as Japan's embrace of the BRI has been, it bears stressing that Japan's embrace is thus far not only still pending but also looks to be modest: private-sector-led investment with government backing, with no indication that Japan will change its stance on non-participation in the AIIB. While Tokyo is learning to live with the evolving China-led development regime, it is not prepared to jump in with both feet and, as will be discussed in the next section, is still focused on its own initiatives. This is not a grand strategic realignment, the birth of something like what former Prime Minister Yukio Hatoyama called an "East Asian Community."[10] Rather, it is driven mainly by domestic political considerations, which, as the Council on Foreign Relation's Sheila Smith has noted, have increasingly played an outsized role shaping Japan's China policies.[11]

First, the Abe government has signaled that it wants to use the fortieth anniversary of the Japan-China Treaty of Peace and Friendship as an opportunity to put the bilateral relationship on a more stable footing. The two governments have not minimized the significant obstacles to a genuine sea change in their relationship – the territorial dispute and broader competition in the East China Sea, Japanese concerns about China's support for North Korea, and tensions regarding China's burgeoning military power – but have agreed that bilateral dialogue with a view towards building a stable relationship is worthwhile. As 2017's joint statements recognized, economic cooperation will be an important factor for restoring trust between the two countries. The expectation is that the commitment to stabilizing the bilateral relationship will lead to an exchange of high-level visits, including visits by Xi and Li to Japan and Abe to China and the drafting of a new bilateral communiqué that would highlight the importance of bilateral economic cooperation, particularly through the BRI.

Public opinion polls suggest that the Japanese public is broadly supportive of efforts to strengthen bilateral cooperation. The annual survey of public opinion in Japan and China conducted by Japanese think tank Genron NPO found that while sources of distrust remain, especially the dispute over the Senkaku/Diaoyu Islands, the Japanese public is increasingly less pessimistic about the state of the relationship at present and less pessimistic about the future of the relationship.[12] The 2017 poll, which was released in December, suggests that Abe can count on domestic political support for reaching out to Beijing. The poll found:

- 59.2% of Japanese believe "a new, stronger cooperating relationship should be established between the two countries for the sake of a stable and peaceful order";
- 40.7% of Japanese believe that "[strengthening] trust between the two governments" would be useful for improving the relationship;
- The share of respondents who identified China as a country that poses a military threat to Japan fell from 66.6% in 2016 to 45.3% in 2017.

The perception that China is less threatening to Japan and that it is important for the two governments to work together stands in stark contrast to the years following the 2010 collision between Japanese Coast Guard and Chinese fishing vessels near the disputed islands and the 2012 standoff following Japan's "nationalization" of the islands, after which Japanese public hostility to China rose sharply.

However, while the public is more open to bilateral cooperation, the Genron NPO poll shows that the Japanese public is also highly skeptical about the prospects for economic cooperation. Only 27% of respondents (9.7% strongly, 17.3% relatively) agreed that the two economies' complement each other, "making it possible to build a win-win relationship." A plurality – 35.9% - expects that economic relations will worsen (although this was an improvement over 2016 when 44.2% were pessimistic). Only 8.6% said Japan should cooperate with China's economic plans; a large majority (61.4%) was not sure. The implication is that while the public is supportive of diplomatic measures to reduce tensions and strengthen cooperation, the Japanese people are not necessarily clamoring for Japan to follow China's economic leadership. Whether intentionally or not, the Abe government's approach appears to fall at this sweet spot. For the same reason, the Japanese government's approach could be highly sensitive to incidents in the East China Sea, such as the recent passage of a Chinese submarine just outside territorial waters near the disputed islands, which prompted protests from the Japanese government.[13]

At the same time that the Abe government is sensitive to the opportunities and constraints presented by changing public attitudes towards China, it is also sensitive to the Japanese business community's interest not just in a stable relationship but in the business opportunities arising from the BRI. It is not clear just how widespread interest in the BRI is among Japanese firms: a May 2017 Reuters survey found that 95% had no desire to participate in the BRI and no firms were currently considering participation in BRI projects.[14] However, it is entirely possible that business sentiment changed once the Abe government signaled that Japanese participation (with public financing) was possible. One indicator of corporate Japan's enthusiasm is advocacy in favor of BRI participation by the leadership of Keidanren, Japan's leading business federation. Keidanren chairman Sadayuki Sakakibara attended the Belt and Road Forum at Beijing's invitation; approved of references to BRI cooperation in the 2017 Abe-Xi joint statements, noting that Japanese businesses were especially interested in "connectivity infrastructure" projects;[15] and led a business delegation to China in November during which he argued that bilateral cooperation through the BRI would benefit not just the two countries but the whole world.[16] Meanwhile, the joint statement produced by the Keidanren-hosted Japan-China CEO Summit in December included a BRI plank that stated: "Both sides agreed to work closely with each other in close cooperation in third-country markets in which both countries' companies can demonstrate their superiority within the 'One Belt, One Road' framework."[17] (In his remarks at a reception for the summit, Abe noted that Sino-Japanese cooperation on infrastructure could "contribute greatly to the prosperity of Asian peoples" and suggested the possibility of cooperation as part of the BRI, but also said such cooperation would be under Japan's "Free and Open Indo-Pacific Strategy" framework.[18])

At a basic level, Keidanren's support for Japanese participation likely reflects concerns that by foregoing participation, Japanese firms – which have already been engaged in a fierce competition with Chinese firms for infrastructure projects across the region – would be operating at a disadvantage in the race to build the infrastructure Asia's middle-income countries need to develop. Corporate Japan's concerns likely include not only the advantages that Chinese firms could enjoy but also firms from other economic rivals, including South Korea, Germany, and France, which have signaled their willingness to cooperate with China through the BRI. Corporate Japan's influence should not be overstated: its voice carries weight in government deliberations, but it does not necessarily make the government's policies. Nevertheless, in this case, given the Abe administration's focus on creating new market opportunities for Japanese firms overseas and promoting Japanese exports, including infrastructure, the administration was likely receptive to corporate Japan's arguments that if Japan remained outside of the BRI, Japanese firms would miss profitable opportunities. However, it is too early to say how many Japanese companies will participate in the BRI, in what countries and on what projects they will work, and just how profitable participation will be.

Japan's regional development strategy

As Abe's aforementioned remarks at the Japan-China CEO Summit suggest, Japan's participation in the BRI will occur within the existing framework of Japan's regional development, trade, and investment strategies. Japan has contributed to the development of Southeast and South Asian countries since the early 1950s, beginning with reparations during the early postwar period and continuing to significant amounts of official development assistance (ODA) and investment as Japan's economy achieved takeoff growth. In a broad sense, Japan's postwar approach to ODA and investment in Asia's developing countries anticipated what China is trying to accomplish through the BRI. The Japanese government recognized that by investing in the industrialization of Asia's less-developed countries – particularly through energy infrastructure and "connectivity" infrastructure like roads and ports – it could create overseas market opportunities for Japanese firms and exports, strengthen Japan's political influence in strategically important countries, and secure access to energy supplies and other resources needed for Japanese producers.[19]

While over time Japan has directed more resources to poverty alleviation in least-developed countries, its development strategy has remained preoccupied with the economic development of Southeast and South Asia. For example, in 2015, Japan's total gross ODA disbursements were roughly USD 12bn, approximately half of which went to Asia – including USD 3.2bn to Southeast Asia and USD 2.46bn to South Asia. Revealingly, the two largest recipients of Japanese ODA were India and Vietnam, which received USD 1.54bn and USD 1.42bn in ODA respectively. Both countries are, of course, increasingly important strategic partners for Japan and targets for Japanese foreign direct investment as they become integrated in Japanese supply chains.[20]

However, as China has grown wealthier and began using its resources to promote economic development through infrastructure construction in Asia and elsewhere in the developing world, Japan has found itself locked in a competition with China to win projects, preserve market share, and maintain political influence across Southeast Asia after decades of being the region's preeminent economic power.[21] As a result, the Abe administration has upgraded its approach to regional development in order to preserve a leadership role for Japan even in the face of what has been described as China's "Marshall Plan" for the twenty-first century. At the same time, as the Abe government articulated Abenomics, its program for revitalizing Japan's economy, it identified infrastructure exports as a source for potential growth, meaning that competition with

China and Asia's "infrastructure gap" presented Japan with a major opportunity. Therefore, in March 2013, the administration created a prime ministerial advisory council to develop a strategy for infrastructure exports and develop new tools for providing public support for Japanese exporters. The government established a target of JPY 30tn in orders for infrastructure exports by 2020, three times larger than the JPY 10tn Japan exported in 2010. Abe and other senior officials have persistently used foreign trips to promote Japan's infrastructure systems, especially high-speed rail and subway and electrical systems (including nuclear power).

As the Abe government developed this approach, it recognized that Japan would not be able to match China in quantitative terms and has therefore articulated a regional development strategy focused on "quality." The February 2015 revision of Japan's Development Cooperation charter stresses the need for "quality growth" that is inclusive, sustainable, and resilient.[22] In Asia, this would entail "both physical and non-physical infrastructure including that which is needed for strengthening connectivity and the reduction of disparities both within the region and within individual countries," with a focus on helping Southeast Asian countries escape the "middle-income trap." Several months later, in May 2015, Abe announced the creation of the Partnership for Quality Infrastructure as part of the broader overhaul of Japan's development policy. Japan would increase its investment in Asian infrastructure to JPY 13.2tn between 2016 and 2020, a 30% increase over the previous five-year period, with the funds divided between the ADB, the Japan International Cooperation Agency (JICA), and the Japan Bank for International Cooperation's (JBIC) infrastructure investment program, the Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN). To encourage private investment, JBIC would relax its conditions requiring host governments to offer guarantees of their ability to repay loans and instead offer to cover losses incurred by private investors. JICA would streamline the process of dispensing loans and grants and would work closely with the ADB to foster public-private partnerships (PPP). JICA and the ADB would establish a fund to enable them to make equity investments in support of infrastructure investment. Recognizing that Asia's infrastructure needs are substantial, he argued, "We should seek 'quality as well as quantity.' Pursuing both ambitiously is perfectly suited to Asia."[23] This program was clearly intended as Japan's response to the then-nascent BRI and AIIB.

The Abe government would further refine its infrastructure export strategy in 2016, when, in conjunction with its hosting of the G7 in May 2016, it unveiled the "High-Quality Infrastructure Export Expansion Initiative," which included new capital for Japan's public financial institutions that would, from 2017 onwards, increase annual support for infrastructure exports to JPY 200bn annually from JPY 110bn, sharply reduce the time required to secure a yen-denominated international loan, explore euro-denominated lending, and increase NEXI's insurance coverage for overseas projects to 100%.[24]

Seen from this perspective, the pending decision to participate in the BRI appears to be simply a new component of a wider-reaching strategy rather than a new strategy in and of itself. Limited participation in the BRI may present Japan with new opportunities for both meeting its development goals by helping to close Asia's infrastructure gap and for meeting its infrastructure export target. Indeed, even as Japan has moved closer to embracing the BRI, it has deepened its partnership with India to promote its own infrastructure initiative, the AAGC. The Abe government has not only engaged India as a partner for advancing "quality" infrastructure in Asia and neighboring regions, it has also taken advantage of India's decision to not join the BRI to ramp up its own development assistance, complementing the broader strategic engagement between the Abe and Modi governments. The joint statement from Abe's September 2017 visit to India includes a laundry list of Japanese aid and investment projects in India, including infrastructure development in India's North Eastern Region (which, coming in the wake of the military confrontation between India and China at Doklam, was opposed by China[25]); major rail investments, including the Mumbai-Ahmedabad high-speed rail and a JICA-sponsored technical assistance program for the National High Speed Rail Corporation; subway projects in six major cities; and energy, sanitation, and "smart city" cooperation.[26] As noted previously, as of 2015 India was already the largest recipient of Japanese ODA, and the latest bilateral exchanges suggest that India will continue to grow as both a partner and recipient of public development assistance and private investment from Japan. The deepening of the Japan-India partnership puts Japan's approach to the BRI in perspective. In much the same way Japan has pursued TPP as an alternative vision for the regional trading regime, Japan has pursued its own vision of regional development. Even if Japan seeks areas of cooperation with China, strategic competition between the two countries will lead Japan to keep China-led initiatives at an arm's length and will lead it to pursue its own vision for regional development even if it cannot match China in terms of funding.

Comparison: Australia and the BRI

Japan's evolving approach to regional development and the BRI contrasts in important ways with Australia, another Asian developed country with a complex, interdependent economic relationship and an often-contentious political and security relationship with China. Like Japan, Australia recognizes Asia's needs for infrastructure and has also stressed the importance of "high-quality" infrastructure that "has robust social and environmental safeguards and avoids unsustainable debt burdens on the economies of the region."[27] Unlike Japan, however, Australia has struggled to chart an independent path that balances cooperation with China and pursuit of its own development strategy. It may belatedly be reaching a similar policy mix as Japan has articulated.

To a certain extent, however, Australia and Japan are moving in opposite directions. Whereas Japan opposed the AIIB and refused to consider BRI participation before 2017, Australia concluded a free trade agreement with China in 2014, was a founding member of the AIIB in 2015, and, according to Chinese Ambassador Cheng Jingye, entered discussions with China in 2015 and 2016 regarding how China and Australia could cooperate under the auspices of the BRI, including a possible linkage to Canberra's plan for developing Northern Australia.[28] However, ahead of a March 2017 visit to Australia by Premier Li Keqiang, the Turnbull government abandoned talks regarding a memorandum of understanding for a BRI-Northern Australia linkage.[29] In short, even as Japan was preparing to discuss how to cooperate with the BRI, Australia was rejecting

Chinese overtures to extend the initiative to Australia itself. Australia has not categorically rejected the BRI; Trade Minister Steven Ciobo attended the Belt and Road Forum in May 2017, for example, on which occasion he said, "Australia supports the aims of initiatives such as Belt and Road that improve infrastructure development and increase investment opportunities in the Asia-Pacific region."[30]

As with Japan, Australia's approach to the BRI has been strongly shaped by domestic politics. In Australia's case, despite signals from Canberra that it is willing to work with China on infrastructure investment across Asia, Australia has been in the midst of a "panic" about the Chinese government's influence in Australia following reports about "thought policing" of Chinese students at Australian universities and the resignation of opposition Senator Sam Dastyari after it emerged that he appeared to have accepted Chinese donations in exchange for defending Beijing's positions, particularly on the South China Sea.[31] Prime Minister Malcolm Turnbull himself escalated tensions with China when, speaking in Mandarin, he evoked Mao Zedong by saying "the Australian people stand up" in response to perceived Chinese influence operations.[32] In this context, it may be difficult for the Turnbull government to bolster cooperation with China on infrastructure investment or extending the BRI to Australia proper. In fact, since the start of 2018, Canberra has feuded with Beijing over its development policies after Minister for International Development and the Pacific Concetta Fierravanti-Wells criticized China for funding "useless buildings" in the South Pacific,[33] prompting the Chinese government to oppose Canberra's "irresponsible remarks."[34] In this context, it may be difficult if not impossible for Australia to move beyond what Australian scholar Ian Hall calls Australia's "wait-and-see" BRI strategy.[35]

At the same time, Australia is struggling to articulate an independent development strategy. While it has enthusiastically embraced the TPP-11 alongside Japan, the Australian government has continued to cut ODA budgets and has yet to articulate new policies to leverage private-sector investment. This may be beginning to change: in December the Turnbull government issued a report highlighting opportunities for infrastructure investment in the Association for Southeast Asian Nations (ASEAN)[36] and the revival of the "quad" of Australia, the US, Japan, and India could create new opportunities for economic cooperation. Nevertheless, even as Japan has responded to China by revamping its development institutions, promoting private investment, and pursuing new relationships to promote regional development before seeking to cooperate with the BRI, Australia has struggled, failing either to reach an accommodation with the BRI or to develop a new strategy for competing with China.

By comparing how Japan and Australia have responded to the BRI, there are two takeaways. The first is that domestic politics matters. Part of the reason Japan is only now pursuing a role in the BRI is that the Japanese public is not nearly as hostile towards China as it was after the Senkaku/Diaoyu dispute intensified after 2012. Similarly, the uptick in fear and hostility in Australia towards China's presence in Australia has made it difficult for Canberra to take a consistent position towards the BRI. Second, although Japan has argued for "quality" infrastructure investment, it has recognized that it cannot counter China without spending some money. While Japan's

ODA budget has not necessarily grown, as mentioned previously the Abe government has channeled more funds to its overseas investment institutions and made it easier for them to lend. By contrast, the recent spat between Australia and China over China's aid in the South Pacific has highlighted the extent to which Australia has cut its ODA budgets.[37]

Implications for the United States

The massive investment surge promised by the BRI has highlighted longstanding concerns about the risks of economic interdependence with China; with Chinese funds, analysts argue, will come Chinese influence over a recipient's foreign and domestic policies. As the recent uproar in Australia shows, these concerns are not limited to developing countries – and they are not new concerns.[38]

However, Japan's management of its relationship with China and its cautious embrace of the BRI is instructive. While we do not yet know what form Japanese cooperation with the BRI will eventually take or what effects it could have on Japan domestically, the Abe government's approach offers some lessons.

First, the Japanese government's shift on the BRI rests on an essential fact. With the BRI added to the Chinese Communist Party's constitution at the nineteenth Party Congress, there is no question that the BRI will remain central to China's foreign policy for at least as long as Xi is in charge. Whether or not third countries decide to cooperate with China through the BRI, China will continue to use it to strengthen its trade and investment links across Eurasia and the rest of the developing world. Developed countries like Japan and Australia have the choice to stay out of the initiative – and are obviously less dependent on Chinese investment than the less developed and developing countries most in need of infrastructure – but staying out will have costs, whether in terms of lost opportunities for one's businesses or lost influence in BRI partner countries.

If the BRI will be a fixture in Asia's economics and politics, the developed democracies, especially the maritime democracies in Asia, need to have their own plans for how to promote development in Asia, particularly in the middle-income countries of ASEAN. As important as strengthening security ties with allies and partners around East Asia is for the United States, Japan, and Australia, security cooperation will not be sufficient to win "hearts and minds" in the region over the long term. Obviously, China's rise is divisive throughout the region and countries can be attracted to China's economic power while still being concerned about its military power. In fact, for many of China's neighbors its economic power is a source of anxiety too. In a 2017 Pew survey of attitudes towards China across the region, only 26% of Vietnamese, 49% of Indonesians, 48% of Filipinos, and 20% of Indians said that China's growing economy was a good thing for their country. Ironically, Australians were the most positive about the benefits of China's growth: 70% said it was good for Australia. In all of these countries, majorities (and a plurality in Indonesia) said China's growing military power was a bad for their countries.[39] These attitudes present an opportunity to the US and its allies to present an alternative vision for the region. But, over time, as China ramps up its investment through BRI, it could wield influence through a variety of channels, complicating efforts by the US and its allies to win support for their own initiatives in the region.[40] As the US competes for influence in Asia, it cannot assume that fears of China's military power will be sufficient to preserve its influence. As Japan has shown, the best way for the US and its partners to challenge China's growing influence is to offer an alternative. As Japan's engagement in India has shown, by committing resources and pursuing its own development strategy, Japan has lowered the costs to India of staying out of the BRI. Perhaps India will not be able to stay out of the BRI forever, but Japan's ODA and growing investment portfolio will increase India's freedom of action if and when it does. The same holds true in other countries on China's periphery. Their fears of dependence on China give the US and its allies an opening, but as Japan shows, it is necessary to have something tangible to offer them.

This need is even more profound now that the US has withdrawn from TPP and the administration has not yet articulated a new strategy to deepen engagement with middle-income Asia. As noted previously, TPP offered Asia's developing countries new market opportunities in the US in exchange for reforming their economies in ways that benefited US companies. As the Obama administration emphasized and as the Abe administration has continued to stress, TPP also provided the region with an alternative sets of rules that could force China to adapt, instead of pushing its own version of the rules governing trade and investment in Asia through the BRI. While Japan's bid to revive TPP may preserve some of its benefits as an alternative vision for regional economic integration, the absence of the US limits its attractiveness to the developing countries that were otherwise eager to join. Without a regional trade strategy aimed at middle-income Asia, it is imperative for the US to develop a regional development strategy that uses bilateral foreign aid, cooperation with the ADB and other multilateral lending institutions, and, perhaps most importantly, incentives to encourage private infrastructure investment in South and Southeast Asia. Given Japan's existing capabilities and influence, the US should coordinate closely with Japan and follow Tokyo's lead in stressing the importance of high-quality infrastructure. Developing a joint regional development strategy could be an appropriate agenda item for the US-Japan Economic Dialogue, as well as for future meetings of the quad.

Despite China's determination to use its wealth to promote greater economic ties to China across Eurasia and expand its power and influence, it is not inevitable that China will succeed in binding its neighbors ever closer. But the US and its allies cannot beat something with nothing. If they want to support the development of Asia and ensure that, even as the region develops, its growth is fiscally, environmentally, and socially sustainable, it is imperative that they coordinate and develop their own plans for meeting Asia's developmental needs, giving the countries of South and Southeast Asia more freedom of action even as Chinese investment proceeds.

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PANEL III QUESTION AND ANSWER

HEARING CO-CHAIR TOBIN: Great. Thank you all.

I'm glad I had lunch; right? It's got us revved up. Whoo. Yes. So to my fellow commissioners, first hearing from Commissioner Stivers, please.

COMMISSIONER STIVERS: Sure. Thank you. Thank you. Thank you all for those excellent testimonies.

Let's, if we could, start with South Asia and India. As you mentioned, you know, China didn't invent connectivity. It's been going on for a long time, and there's been numerous initiatives to connect especially South Asia, which is one of the least connected regions of the world. I mean India is not even connected to itself, much less its neighbors in South Asia, much less to Afghanistan, and much less to Central Asia.

And there's been numerous initiatives to try to improve connectivity from India's standpoint and kind of get Afghanistan, in particular, and Central Asia better access to the markets in both Pakistan and India, and that was a major initiative of the last administration, which was called the New Silk Road before China called it the New Silk Road.

But my question is this: should the U.S. be going down that road in terms of helping India better connect to South Asia? And is that a competition for what the Chinese are doing in terms of connecting to everywhere pretty much? And how receptive is India to that? How much are they doing? And how can we help India?

MR. SMALL: Sure. So I mean I think, as you point out, because there is such a significant deficit already there in terms of connectivity, I think there is really significant capacity to pursue complementary initiatives in the region that don't just function as competition. The needs are very significant as you point out. A number of them are--there's even more needs inside India itself. A lot of the Japanese initiatives are internal to India.

There's significant deficits there. So I mean I think it's possible to do this in a manner that doesn't, isn't wasteful, doesn't simply heighten the geopolitical competition with China and the region if it's pursued effectively.

I mean I think the Japanese model is still, to me, the kind of gold standard on all of this in several respects. There's real money behind it. It's got significant private sector involvement and buy-in. It's differentiated clearly--the Quality Infrastructure Initiative.

It dovetails very closely with the political agenda that India has in the region. But it also involves a kind of conditional offer of partnership with China on very specific terms that have just been laid out before, just in December, in terms of the sorts of projects that Japan is willing to work with China on under the BRI.

So I think that's the kind of zone that one has to get into. And, of course, the other thing is there's a serious trade agenda there, and that's a piece where, of course, India lags in terms of its own enthusiasm for involvement in high-standard trade agreements and things like that.

And I think that is an area where it would be helpful if India could be drawn in more effectively to those sorts of frameworks that Japan has been pushing very effectively in the last period of time.

So I think those would be the main areas. Some of them are internal. Some of them are some of the Southeast Asia connectivity. A lot of these are kind of East-West where some of the China pieces are North-South. Some of it is being able to develop non-China-centric models. India has a number of plans, including again cooperation with some of the Southeast

Asian states, with Japan and others, and finally I mean one of the biggest problems remains the India-Pakistan piece on this when it comes to transit trade in the region, access to Afghanistan.

It's possible to construct things around it, and Chabahar and these things have. But in the end being able to ensure that there is an environment in South Asia where rivals are also able to trade and benefit from economic linkages with each other will be helpful, and I think in the end that's something that the U.S. will also have to play a role in facilitating and has tried to, of course, in the past.

COMMISSIONER STIVERS: I mean it just seems to me connectivity is not a zero-sum game.

MR. SMALL: Exactly.

COMMISSIONER STIVERS: I mean you have, you know, Belt and Road Initiative. It's going to move forward. No one is going to stop it. It's going to do what it's going to do. But a robust India connectivity initiative could, you know, obviously do a lot for the economies in the region, and whether Japan will lead that or whether the Quad can come together and work on that sort of thing.

But it would be a balance for the region in terms of connectivity to two of the largest markets that might make more sense in terms of stability and prosperity for the region.

Just real quick to Asian Development Bank. Asian Development Bank has been the multilateral institution. They do projects in China, in India, all over Asia. That would seem to me, it would seem to me that the ADB is the institution that is kind of being relegated to the second choice based on all these bilateral development initiatives.

And I guess my question is what is Japan's view of the ADB? I mean from my perspective, it looks like it's being supplanted, and what can we do to strengthen the role of ADB? What can the U.S. do in particular?

MR. HARRIS: So I think, I think Japan has found itself in an uncomfortable position certainly when AIIB came on the scene, and one of the questions was how do we protect this institution that's been kind of our, you know, we've led, we've supported? It's been one of our vehicles for pursuing development in the region. I mean but Japan itself has always pursued bilateral development assistance as well.

So the ADB is certainly part of the portfolio. And, look, at this point, it's certainly in a better position I think to fund a lot of these projects than the AIIB. The bank itself has, I think, indicated that it is fully willing to work with the AIIB. Look, they, you know, ten years ago identified the infrastructure gap that middle-income Asia was going to face that needed to be filled. So there--I mean they're obviously at a place where they can lend and support high-quality infrastructure in a way that the AIIB is not ready to do yet.

So I mean I don't think there's quite as much concern at this point about whether it's being sidelined. I mean I think there is so much out there that needs to be funded that I mean they're--they're at the table. Japan, I think, upped its amount. One of its initiatives over the last several years is increasing its funding with ADB.

So I don't think there's a worry necessarily about it being supplanted. You know, I think making sure that the United States continues to meet its commitments, the ADB is important, and, you know, supporting that emphasis on high-quality infrastructure is a way to make sure that this alternate vision, I think, continues to move forward and really becomes reality. So I think that really just making sure the U.S. is an active participant in the ADB is essential.

COMMISSIONER STIVERS: Just one quick follow-up. Have you seen any lessening of standards by the ADB in order to--I worry about a race to the bottom in terms of standards in Asia because of the Belt and Road Initiative. Have you seen any of that, Mr. Harris or Mr. Eisenman, Dr. Eisenman?

DR. EISENMAN: Well, I was just going to associate myself with these remarks. It seems to me that there's enough to go around when it comes to infrastructure construction, and that in a lot of ways the ADB is setting the standard, and it can set high standards, as Mr. Small said a moment ago.

And it's in setting those high standards that it can, in fact, in fact, benefit maybe from the competition with the AIIB, right, that the AIIB is competing with it and thus making it raise its standards in order to--and raise the amount of funds.

So it's got more funds and higher standards in a way that is actually facilitating and enhancing it through competition. So I don't--I agree with the initial statement you made. I don't see it as a zero-sum game. And the AIIB, to my understanding, hasn't really done anything yet.

So having done almost nothing and being in Beijing, and Beijing, to my understanding, and, friends, you can tell me if I'm wrong, is the AIIB the only institution in Beijing that's not controlled by the Communist Party of China and is not a foreign embassy; right?

So it's physically in a tough location politically, if that makes sense; right? Whereas, the ADB doesn't face this kind of problem. So I'm not sure that that is hampering it or if other issues are hampering it, but it's certainly the general environment with which the organization exists.

COMMISSIONER STIVERS: Thank you.

HEARING CO-CHAIR TOBIN: Okay. Senator Talent, please.

COMMISSIONER TALENT: Thank you.

Mr. Small, I'm very interested in your discussion of India. You said that the Chinese took care with the Japanese and the Russians to lay the basis for all of this and didn't with India.

And then you said India was successful, I think if I understood you correctly, in imposing some red lines in South Asia. So could you and the others please chime in? Flesh that out a little bit. Why do you think the Chinese didn't prepare the ground with India? What's the significance in terms of what it says about Chinese-Indian competition? And how was India able to impose those red lines, as you put it?

And then anybody else who wants to chime in on that.

MR. SMALL: Thank you, Senator.

So the first element of this was, of course, China has a much better relationship with Russia than it has with India. There are other tensions there, but I don't think that was actually the nub of it. I think the nub of it was that China has not been ready, and I think it may now be prompted to take account in a serious way of India's sense of South Asia being its backyard, and that I think what India has showed in the last period of time, partly with the red lines which we can go into, partly with what played out on the border, is that China is going to have to negotiate terms with India, that India has the capacity to influence China's--

COMMISSIONER TALENT: So if I could jump in, do you think they thought that the Indians would just give way? They didn't think that they would effectively stand up for their interests?

MR. SMALL: I think they thought they've been able to make a lot of the advances that they've made in the last period of time without very much resistance, and then they moved ahead with some of these initiatives with Pakistan, that they felt they'd been able to kind of shift some parameters there. There were things that they used to be careful about. They were quite careful about Gwadar. They were quite careful about the kinds of investments they had.

And then they really started amping it up with CPEC, and they kind of tried--they actually tried to pursue a slightly de-hyphenated approach to the two countries. It doesn't work in the region. The Chinese relationship with Pakistan is something that India sees in various ways as a critical security concern, and they just didn't do--that they hadn't done economically with Pakistan what they had been doing before. India--they went to the Indians and said, oh, this will be helpful to you. This will stabilize Pakistan. This will deal with de-radicalization things. India completely understandably sees the relationship through a security prism and wasn't buying it.

And I mean some describe China as having strategic contempt for India. They don't take its concerns seriously enough. I think what's played out in the last couple of years has been a significant corrective to that. India has political influence, it has military influence, even if it doesn't have the same resources that it can bring to bear financially and economically.

The two cases that I mentioned, and I mean you could see the same thing with the Maldives. You could see, I mean India, even if it doesn't do a dollar for dollar matching can shape these countries' choices, and I think China understands that better. And the countries in the region understand that better.

I very much doubt there will be another dual-use port for China in South Asia. I think they will have their run of the Pakistani ports. I don't think they'll have a dedicated naval base or something. I don't think elsewhere in the region they will, they will end up with that option because I think India will prevent it.

COMMISSIONER TALENT: Well, I just find that very interesting, and the others may want to come in, because it suggests that where there's an effective push back that the Chinese will substantively change their methods and perhaps their objectives, which might be a clue for American policy.

Does anybody else want to chime in?

DR. EISENMAN: I was just going to agree with what you said, Senator. So in the Chinese strategic thinking, and much has been written about this, there's a concept called the "shi," or the propensity of things; right? And so if the propensity of things is in your favor, then you take a particular policy, it's likely to be successful. But if the propensity of things is against you, even the best thought-out plan is not likely to be successful.

So I think that that's exactly right. You know, the Chinese, the sense of it is very opportunistic. And so where you find push back, then you move around that push back. And so to that extent, you can, as a foreign power, benefit from that understanding, but it requires clearly defining your interests; right?

My friend, Ambassador Derek Mitchell, has an analogy he likes to think about in terms of basketball. When you're standing and somebody hits you, the foul is on them. When your feet are moving and you're all over the place, the foul is on you.

And so to the extent that we can have a policy that's clear, I think that that's perhaps the most important thing of all is that our policy is clear and supportive of our allies.

You know this, this road that the CPEC corridor, it's going through this territory which is claimed by India; right? So it seems that, you know, I don't whether it's a strategic contempt or just contempt or just not thinking it through, but it seems that if you're going to drive the road through territory that India claims--whether it's theirs or not, I'm not even getting into that--it seems like you're almost precluding them from participation; right?

They'd almost have to change their national policy of territorial integrity to join your One Belt One Road. So I don't know if it's through contempt, neglect, or maybe purposeful exclusion; right? Or I don't know. Maybe the geography means you can only drive it through that area. But it seems to me that the minute you go through that contested area, you make it impossible for India to really be an important participant.

MR. HARRIS: So I think one thing to add, and I wonder if Beijing was taken aback, the extent to which Abe and Modi have cemented a development partnership, you know? You look at the wish, you know, the laundry list of projects that Japan and India agreed on when Prime Minister Abe went to India in September, and it was, you know, he went to Prime Minister Modi's home province and was, you know, a giant celebration.

I mean it was this lengthy list of not just, not just, you know, the big ticket projects about the high-speed rail corridor and the subways. I mean you obviously have those big projects. But so much of what they're doing now is how do you get Japanese companies that are now increasingly diversifying their locations in Asia, and, you know, for the last, for the better part of this decade, you've heard about the China Plus One. Well, now, India, I think, is on the radar screen for a lot of Japanese companies provided that you can get some of this infrastructure and connectivity in place because I think right now a lot of them look at it and say, you know, maybe, but we need, you know, we need to actually be able to use this.

And so you look at that laundry list, and so much of it is how do we get Japanese money here? How do we get Japanese companies as partners? And, you know, a lot of that is just Japanese, you know, these public financial institutions providing sort of the floor to help the Japanese companies enter the market. I mean, but it's a slam dunk. I mean you look at how much Japan has leaped on this opportunity, and you wonder if that is pushback in its own way, that, okay, Japan saw the opportunity and has leveraged the relationship that Abe has with Modi, and Abe has a longstanding interest in India, and they're running with it.

And that I think now, you know, certainly is wrong for China, and I think that's got to be a factor as well.

HEARING CO-CHAIR TOBIN: Thank you.

Commissioner Shea, please.

HEARING CO-CHAIR SHEA: Sure. Well, thank you very much.

I guess my first question is for Mr. Small and then I have a question for Dr. Eisenman. I'm sorry, Mr. Harris. Maybe I'll come up with one later.

[Laughter.]

HEARING CO-CHAIR SHEA: But for Mr. Small, one of the things we learned this morning or heard this morning was that China has learned as a result of its significant global investments maybe to localize security. So my understanding is that in Pakistan, China is relying on a 12,000 strong Pakistan security force. Part of the projects go, are in Balochistan, which is a very tenuous area of Pakistan.

I was wondering if you could just give us a briefing on how the security, the local securities is doing there?

And then, Dr. Eisenman, another thing I thought the Chinese learned from their global investments was that they can't just bring in all this labor, Chinese labor. They have to sort of integrate local workers into their projects.

But then you said that one of their objectives is to deploy their--of the Belt and

Road Initiative--is to deploy their excess labor. So I was wondering if you could, if you could flesh that point out a little bit? And what, do they have a number associated with their excess labor? We have, you know, 30 million excess laborers that we need to deploy? I mean what, if there is such a number, I'd be curious to hear that.

Mr. Small.

MR. SMALL: So thank you, commissioner.

You're correct in China has the Pakistani army or its kind of inter-services protection force that's been put in place. The numbers could go substantially higher even than 12,000. It's basically just guided by the scale of the projects that are there.

There's a Maritime Protection Task Force as well operating in the vicinity of Gwadar. Basically mobile. And this is added to a lot of the protection measures that have been put in place after some of the incidents that took place back in 2007, 2008, around that sort of time.

They've actually done a relatively good job of securing Chinese personnel since that time. There was a period of time in which there were a number of kidnappings, killings of Chinese workers. In the period since then with these sort of stronger protection measures that have been put in place, you haven't--you've had near misses in Karachi. You've had the kind of bombing incident and things. You haven't had Chinese workers working on these kind of dedicated projects kidnapped or killed.

There is a current potential exception. There was an engineer that disappeared in Kahuta, which could be the first kidnapping case, which should be rather sensitive.

The interesting thing is the greater concern is actually not the protection afforded to the projects themselves. It's the other Chinese that are coming into the country as a result of this and are operating outside this protection umbrella. The case of the missionaries that were killed, kidnapped and killed in Quetta, for instance, and all of the incidents, in fact, that have taken place. An academic, a cyclist that was riding through Pakistan to try to go to Iran and got picked up.

The biggest headache is actually as much all of these other personnel who are floating around the country, and I think that's actually some of these countries, including Pakistan, can put in place really elaborate protocols. I mean people can be transported in armored personnel carriers to projects and things, but some of these softer targets are going to be a bigger headache.

There is an influx of Chinese personnel coming to these countries, and it still, of course, causes a significant tension between the governments when it comes to recovery efforts for kidnapped victims and all of these sorts of cases. But I think more of them will come from those cases than successful attacks on projects themselves where I think the Pakistanis have actually done a relatively successful job. There are Pakistanis who have been killed but not Chinese.

DR. EISENMAN: Well, thanks for an excellent question.

Before I get into it, I have a quick question. How many, the CPEC corridor, do you happen to know the percentage of Chinese versus Pakistani labor working on it? Andrew? Okay. Because my understanding is there is a significant contingent of Chinese as well working on it.

So a couple of points to this very important question. One is in terms of total excess labor, we know China has about 30 million extra men, which is about the entire population of Canada, and it has to find a way to employ these people; right? Otherwise they become a stability risk.

And so the exact number of people that they're looking for jobs for, I don't know. But I know that it's in the millions. And I know that this is in part the result of their one-child policy and other measures that they've taken for many decades.

Now as I had mentioned during my oral testimony, BRI is at this point anyway largely domestic, and that means that employing these people within China is perfectly legitimate as long as they're employed and not causing social stability problems.

So in Henan Province where you--or Hunan Province--excuse me--where you may have had a slowdown of construction, now you've got more money going in, which means more people are being hired, which means that your concerns about unemployment within that province are reduced.

So the labor issue doesn't necessarily have to be about bringing them outside of the country. It can also through the BRI Initiative be done within the country.

In terms of the external, I think the commissioner is correct, that there has been some push back in terms of having Chinese labor on the ground. However, I would say in my investigation from the book I worked on with Ambassador David Shinn on China, Africa, we found that local labor laws have a lot to do with what China does and does not do in particular countries, and this is not all that surprising.

But we found, for instance, in Sudan at the time where we did research that it was very hard to fire a worker. And therefore the Chinese were more than happy to bring in their own workers because if they hired Sudanese workers and fired them, they'd have to pay them back pay, and it was a whole mess.

But in Ethiopia, you could hire and fire a worker three times a day. There was very little limitation, and so they used the Ethiopian workers like tissues, to some degree; right? If they didn't like one, they would move on and they'd hire another. And so the local labor laws had a lot to do with this.

In other countries we were in, people would show us forms that say, see, we have exactly to the man the right amount of Chinese labor, and by the way, here's my new Hummer; right?

[Laughter.]

DR. EISENMAN: So it was a little questionable as to whether or not the law of the country was being implemented. I don't have any proof to say it wasn't except for the fact that it didn't feel right that it went to the person of the amount of Chinese labor.

But so I would say this is a question that has a lot to do with where the project is being implemented. If it's implemented within China, of course China labor is going to be used entirely. If it's outside of China, we have to look at the laws of that country and their ability to implement them.

HEARING CO-CHAIR SHEA: Okay.

DR. EISENMAN: Thank you, sir.

HEARING CO-CHAIR SHEA: Thank you.

HEARING CO-CHAIR TOBIN: Okay. Vice Chairman Bartholomew, please.

VICE CHAIRMAN BARTHOLOMEW: Thank you very much.

Andrew, I just wanted to add one thing as you were talking about India, which is demography, and that sort of as you look five, ten, 15 years down the road, 50 percent of India's population is under the age of 25. We know that China has demographic aging issues that they're going to deal with.

So I think factoring that into India's rise or India's ability to sustain itself in the region and beyond, I think is going to be an important thing. You know that. I just--we'll chalk it up to the flu.

[Laughter.]

VICE CHAIRMAN BARTHOLOMEW: I just want to ask all of you the question, one of the questions that I asked earlier, which is from Beijing's perspective, what do you think constitutes success for BRI? What are the markers do you think that they are looking to to be able to decide that this is a successful initiative?

DR. EISENMAN: Well, um--sorry, do you want to go?

MR. HARRIS: No, go ahead.

DR. EISENMAN: So as I said in my oral testimony, I would say that the BRI Initiative in order to be successful probably has four components. One is economic. Another is political, cultural, and then strategic.

Economics. First, I mean deploying the excess capital, the excess labor, and then, you know, probably being repaid; right? At the end of the day, these are loans, and if they're not repaid, it's hard to see the program as a success. Now, you could go and write off all these loans, but at that point, the question would be why did you make them loans in the first place, right, if they were going to be a giveaway?

So presumably you want to either get repaid or you want to get equity stakes for your loans. Internationalization of the renminbi has been something that's been an ongoing priority for Beijing, and then, as I said, politically you've got to be liked better at the end of the day; right? If you go through all of these troubles, all of this money, and at the end of the day you lose influence in these countries, it's hard to call it success.

And then strategically, building China as a metropole, as an essential part of globalization. All roads leading to China to some degree. And enhancing China's role as a leading country in the world, a major power, both in a reputational sense and an economic sense and political influence sense.

VICE CHAIRMAN BARTHOLOMEW: Mr. Harris.

MR. HARRIS: I mean I would just add to that I think there's a key word that underlies a lot of that, and that is legitimacy. And I think that explains a lot of the dance between Beijing and Tokyo now to find the terms that Tokyo might contribute in some way. I think it might explain how China courted Australia quite intensively within the last several years to try to get Australian buy-in and maybe even to have Chinese or Australian infrastructure projects as part of the BRI, particularly in northern Australia.

Having Japan, having Australia say yes, this is a legitimate approach to addressing a real Asian and global problem, this infrastructure gap, and just the challenge of development, and Japan recognizes it, Australia recognizes it, and I think the creation of the AIIB showed a similar pursuit of legitimacy, the courtship of developed countries and getting them to sign on and getting European countries and South Korea, and Japan, and trying to get all these countries to say, yes, China is putting a real serious answer to a problem that we all recognize and we recognize the solutions to it and we support it.

I mean that, I think, is a major concern, and I think it underlies beyond getting a return, beyond just the cold calculations of political influence. I mean I think there is you're recognizing China's status, you know, that it has risen, it is now providing, you know, true leadership in a concrete--literally a concrete sort of way. And I think that's a big part of it.

VICE CHAIRMAN BARTHOLOMEW: Andrew.

MR. SMALL: Yes, just to add to that, I mean in the first phase, they had a real problem. There weren't projects happening. You had this great initiative and you didn't have things moving forward on the ground. When you look at the early contours, and this is why I highlighted the Pakistan case in the way that I did, governments that were willing to shovel projects to the Chinese, allow the Chinese to come in on the kinds of terms for their companies that they want in a significant way, established a relatively privileged position and political salience that they might not otherwise have had.

Initially I think they just wanted something to show for it, and so--and the second element in the very early phase was a kind of political consent. It does actually matter to China that India didn't turn up to the forum. They pushed really hard and they sent endless arrays of diplomats. The ambassador in India still comes up with suggestions for renaming CPEC and things that get expunged from the record and things like that.

They do actually want this to be acquiesced to by countries, and I think one of the priorities through this first phase was buy-in just at the political level. I think they consider where they've got to with Russia a success. I think they consider what's happened with Japan in the last period a success.

I think in some cases even if it's just nonresistance, that's okay. I think in India's case they just wanted acquiescence to CPEC and things like that. But I think that partly, in the first phase, those were partly what they wanted. I would just note, as well, I mean I would agree with everything that my fellow panelists have mentioned on this.

There are some very ambitious country specific objectives over the very long-term. I mean again I look at what constitutes success in Pakistan. There's this enormous array of kind of stabilizing the country, building confidence, adjusting the mindset, deradicalization, building it as an economic hub. The incentives for the various actors actually in the Chinese system on this are not all the same, and so what constitutes success for some of the economic actors in Pakistan is not necessarily the same as what constitutes success for the PLA.

You're going to come into collision at certain points when it comes to questions like do you write off debts to your friends as a sort of strategic example to other countries that there are benefits to being a close security partner? Do you--and Pakistan is going to be I think a case study for this as well.

The banks, the financing institutions, will then run into moral hazard questions and things like that. There will be others at the political level who have different incentives. At the moment, a lot of these objectives are aligned under this kind of amorphous glob of all of the kind of BRI stuff. There are going to be points, and I think you already see this in some countries, where what constitutes success starts to be differentiated and comes into collision.

I don't think they've really worked out how to navigate that fully yet. At the moment, it's just I think the overall political direction is there, and then people are just swinging in. Having been watching the Pakistan relationship for a long time, you suddenly have all these new actors come in with different interests who had never been involved before when it was just the PLA running the show and other powerful actors. You know it's going to be difficult to break ties between some of these groups.

VICE CHAIRMAN BARTHOLOMEW: So I'm curious--this was kind of raised also--your point about legitimacy--Nadège Rolland, of course, today talked about tributary states. Oh, she's here. But talked about tributary states. I'm inclined, actually, frankly, I'm perhaps a little bit more cynical than some other people in it. It's a concept that I find makes perfect sense when you look sort of at China's rise and displacing the United States and all of that.

And so I find myself wondering how much, how much is legitimacy an issue or how much is just sort of sheer power politics? I could put the word "fear" out there, but power politics. So getting respect and being treated as a legitimate power is a little bit different than knowing that you can throw your weight around if and when you need to in order to accomplish what you think you want to be accomplishing.

DR. EISENMAN: I would actually say that these two things come together quite nicely; right? The tributary state system is a way to legitimize at that point the imperial government of China. You kowtow to the emperor; you bring him your shabby gifts, and he gives you silk and jade, and then that legitimizes the grandeur of the throne and the imperial regime.

And I was a part of an event in Kashgar not too long ago. Not Kashgar--excuse me--in Urumqi not too long ago which seemed neo-imperial in that sense; right? Foreigners coming up one after another explaining why the BRI was going to save them, and the Chinese sitting in their big red chairs, "um, yes, yes." So it did have this neo-imperial approach to it.

But I would also agree that legitimacy is part of the need for a neo-imperial approach; right? That these things are very much interwoven and connected in terms of legitimizing the government of China internationally; right? The more countries that acknowledge China, and this is the Taiwan issue as well, it's a legitimization of the Communist Party's rule over China.

The more countries that show up to the BRI, the more that legitimize their development- first approach, the more that accept their political rule. So I would say that both are right and actually very much overlapping of what you both said.

MR. HARRIS: I mean I think just too, I mean I think legitimacy is important, and I think we see it in precisely the cautiousness with which Japan has approached. Because I think if it were just about power politics, I mean I think Japan would say we want nothing to do with this, there's nothing for us to gain here, and I think, I think they've recognized that there is a certain amount of leverage that comes from saying, you know, Japan is out or Japan is in. You know, Japan is a wealthy country. Japan did this. You know, in some ways China is following Japan's footsteps in a lot of ways.

Japan spent several decades after the war as it rebuilt, trying to build political influence through connectivity, through building infrastructure, through creating opportunities for its companies. I mean this is, in some ways this is a blueprint. China is following a blueprint that Japan invented. I mean obviously on a bigger scale, but this is something that Japan spent a lot of decades doing.

And so I think, you know, probably Beijing, Beijing might be reluctant to admit it, but, you know, getting Japan's kind of blessing in some capacity I think is actually important, and also, you know, that it's an important U.S. ally, and so kind of prying, you know, even if it's, even if Japan is finding its own uses for it, I think prying Japan away and saying, look, Japan said this is okay, and it's allowing its companies to participate and it's putting its money in, that means something beyond just simply we're bringing Japan into our orbit.

Because I don't think that's actually what's happening, but I think that Japan's currency is something different. And, you know, that, so that's precisely the kind of series of interactions at very senior levels over the course of 2017 where getting one line into a joint statement, where you look at the language kind of evolve between from July to November to December, that you have these statements where Japan is sort of giving inch by inch, you know, trying to set, to say we're not, we're going to do this on our terms. We're not just going to give you want you want, and I think there it reinforces the extent to which legitimacy is important if not the only thing.

MR. SMALL: I think it's partly a decision that they will really have to make in the next period of time as to the relative priorities in this respect.

I think they have tried to do everything together and have not, have, you know, they had debt-for-equity deals, looked for dual-use ports, given contracts on terms that are not particularly generous, not been transparent. I mean they've looked to fulfil all of their objectives simultaneously, and I think they are running into legitimacy problems in some of these cases, and they are in some cases running into certain forms of resistance. And they don't want--as in other fields as well--kind of, as it were, countervailing coalitions that will work against them and undermine their efforts.

So I mean in some of the cases, it's just a practical response to what's going on. I do think this was, as they envisaged it, the more kind of benign version of what they were doing, a soft way to advance their power position and interests over time in ways that countries would accept. I think they were surprised by the reaction of countries like India actually, as well. I think this is one of the other reasons that they, that they kind of had some of these missteps.

I think they thought that money would talk and people would want to see the benefits of investment from China and things like that. I think the reconceptualization of what's going on for a lot of countries in rethinking what the economic ramifications are of certain kinds of relationships with China is putting them in a trickier spot. And if they make certain adjustments in the next period of time, then there's a different sort of impact.

I mean the AIIB, again, in Chinese context, the AIIB is the sort of gold standard version of what they've been doing with this in terms of relative degrees of transparency, multilateral complementarity with existing initiatives. But they don't want the whole initiative to look like the AIIB. They want to retain the prerogatives to do things bilaterally, do politically targeted efforts.

But they, in some of the cases, they're going to have to make some choices as to what contours the initiative takes. I think they got away in the first phase with a degree of confusion about the intentions and things. In the next period of time, more and more projects will hit the ground, there will be more and more cases where you can actually assess multiple instances of things like debt renegotiations.

Is Hambantota a one-off, they've learned, seen as a kind of cautionary tale, or is this something that they start to replicate in other cases? If it is, it's going to change the kinds of responses that countries have to it. I don't think they've reached a decision yet. I think there's still a lot of having cake and eating it with Belt and Road at the moment. But I think it's going to be forced on them soon.

HEARING CO-CHAIR TOBIN: Okay. I have got questions for Mr. Harris and Dr. Eisenman at the moment. And first let me start with Japan. I want to dig deeper into this. I was delighted to read your testimony, and I was reminded, and as you laid out the facts of the amount of investment Japan has and some of the frameworks that they have, I was reminded of our trip this last year to Thailand and to Myanmar where it was really clear what role Japan is playing in parts of South Asia, Southeast Asia.

In your testimony, Mr. Harris, you spoke about two things I'd like you to expand on. First of all, you mentioned Japan and India announced the creation of Asia-Africa Growth Corridor, and I'm wondering if you can expand on that.

And then on the next page, page or two later, you spoke about Japan's free and open Indo-Pacific strategy framework. So could you give us for the record more details on both of those? And is Japan somewhat purposefully trying to play a little, not below the radar, but, you know, are they being wise to be not too confronting so that would be for you, Mr. Harris?

And Dr. Eisenman, in your testimony, you spoke about, on page 14, that BRI would open new opportunities for fraud and corruption, and that many of these countries, which we all obviously know are rated poorly on corruption and transparency indexes. Can you comment on the risks that you see for China in terms of money laundering and how that might be a factor as they--you mentioned how much debt, but, you know, it just seems like there are some other risks?

So let's start with Mr. Harris, please.

MR. HARRIS: Thank you for those questions and for closely reading my written testimony. I appreciate that.

So on the first, I mean I think at this point, the Asia and Africa Growth Corridor was announced as a vision in May of last year, and so we're looking at it. It's not even a year old. I don't think they're at a point now that they're not, they're not starting on projects yet. I think there's an idea, though, that it would rival some of the maritime dimensions of the BRI. So that it's connectivity between India, particularly I think--and this is something that I think got China rather upset--that Japan is focusing particularly on India's northeast.

And I think the idea would be connectivity between northeastern India, Southeast Asia, and then from Southeast Asia and the port structures in Southeast Asia, then build that out to East Africa. And that really is the idea.

But I think they're at the point now where it's something they've laid out. They're committed to it. It obviously is part of this broader high-quality infrastructure approach. But I think this is something that we're going to have to watch going forward to see what actually this ends up looking like, what’s the timeline for getting these projects built.

And I think really, as I've mentioned before, I think right now the main thing to watch between Japan and India is what Japan is doing within India, how Japan is filling India's needs for infrastructure now.

As much as we're seeing the cooperation in South and Southeast Asia more broadly, I think right now that Japan's role in India itself is, I think, the more important dimension of their cooperation right now.

HEARING CO-CHAIR TOBIN: Okay.

MR. HARRIS: As for the free and open Indo-Pacific strategy concept, this is something that has existed basically in some form in Japanese foreign policy thinking for at least a decade. When Abe was first prime minister, towards the end of first year as prime minister in 2006 and 2007, took a trip to India, gave a speech in the Indian Parliament where he talked about the meeting of the two seas, and this is something that I think has been close to him for, you know, to his thinking for a long time, this idea of, you know, India, enlisting India as a partner as the region changes, as China's influence grows.

And, you know, they would say that we're not trying to contain China, you know--

HEARING CO-CHAIR TOBIN: Yeah.

MR. HARRIS: They're careful to say that that's not the goal, but drawing India into the East Asian balance of power is I think something Japan is very interested in. I mean obviously they look at demographics and see India is a country that could be important and could be helpful for Japan.

And obviously then growing out of that was this concept of the Quadrilateral, and so you had in 2007 the first convening of that, that body that basically then went dormant for the better part of the last decade and only really was revived in November of last year on the sidelines of APEC.

And so that is, I think, a concept now that has been revived, but again it's in search of substance, you know, that, yes, military cooperation between Japan, Australia, India, and the United States is, you know, there's plenty of experience there and working together and exercises, and that I think is going to proceed.

But I think there's, it's a concept in want of real practical goals that they can achieve, and I think this focus on high-quality infrastructure and articulating an alternative vision of infrastructure investment in the region is something that they could all work on. And, you know, with Japan's focus on it, with India getting in the game, Australia at least saying the right things if not quite getting there institutionally, there's plenty of material to work with.

And so I think as the administration is and the U.S. Congress thinks about how to give more substance to this Indo-Pacific concept, I mean I think infrastructure should be a priority for that discussion going forward.

HEARING CO-CHAIR TOBIN: Are you aware of whether or not the United States is--some of our key leaders are thinking about this in terms of the framework itself? Hooking in with it or I mean what's the level of awareness here?

MR. HARRIS: I think, I mean I think it's, I think there are discussions. I don't think it's at the level of, you know, formal strategy documents yet, but I think, certainly I think in the administration and various departments, I think there's recognition that this is a--you know, this should be a priority, and that it could be done.

And again the discussions, I think, in Congress about OPIC, OPIC going forward, I think, are really important, having an institution that can contribute to these discussions, that's going to be the counterpart to JBIC and to JICA, you know, the Japanese institutions that have been doing for so long.

And I think there has to be a recognition here that Japan is so much more--

HEARING CO-CHAIR TOBIN: Right.

MR. HARRIS: --experienced. They've been doing this for so many decades. You know, they're trusted. I think the fact of going to Myanmar, going to Thailand, you know, that seeing the Japanese on the ground in all of these places in quite a substantial way and also, you know, the supply chains they have in all of these countries, you know, integrating these countries into Japan's system of production, Japan is going to have an edge here. And there's no reason why the United States can't follow Japan's lead and ask Japan, hey, what can we do to help you? You know, you've thought about this more, you have the resources, you have the experience; what can we do to support you?

And I don't think there's any reason why the U.S. can't be in a position to ask that, to offer that support.

HEARING CO-CHAIR TOBIN: Good. Thank you.

Dr. Eisenman. Thank you by the way.

DR. EISENMAN: Oh, no. Thank you. Thank you again for taking the time to read my written testimony which is pretty long.

[Laughter.]

DR. EISENMAN: Thank you.

First of all, I want to associate myself with the remarks just made. I was really happy to see the Quadrilateral meeting for the first time in a decade. I think it's really essential not only on the economic side but on the political side; right?

We need the liberal leaders of the world to walk with their chests out a little bit. Right? Part of the problem is--

HEARING CO-CHAIR TOBIN: I like that.

DR. EISENMAN: --we're being a little too modest, right. We're not muscular liberals. We're the other side, right. So I'm pleased to see this. I'd like to see a more political aspect to it, not just security, and of course economics as well, but owning, to some degree, democracy and being proponents of it.

In terms of your question, which is a good one, this issue of corruption, and as this body knows and I'm sure everyone in the room knows, Xi Jinping has been leading this anti-corruption campaign, and this is a signature campaign as much, if not more so maybe, than his BRI campaign, and so the idea that BRI could then contribute to an enhanced corruption seems antithetical to his objective--

HEARING CO-CHAIR TOBIN: Right, right.

DR. EISENMAN: --in that way. And so this is where the nexus of your question is and becomes very interesting. If you've got two signature campaigns, and one is doing damage to the other, then that would seem to be a problem.

And there is to some degree the internal component. Maybe Xi Jinping can exert influence, more influence, right. This is within China so what's going on in Hunan and other places, it's "gue ne." It's internal and therefore China can to some degree utilize the tools of the anti-corruption campaign. That is these investigation squads, different internal Party mechanisms to make sure that within China, the BRI is not or is less corrupt.

But externally when you're in all of these myriad of different 60-plus legal environments, linguistic environments, cultural environments, things become much more dicey, and my experience is mainly on the Africa side, and so maybe I can recount a quick anecdote.

Ambassador Shinn and I were doing research in Angola. We met with a minister in Angola, and there was a Chinese gentleman in the room so I began talking to him in Mandarin, and I asked him what he was doing, and he said, well, I'm building this particular project, but before I can do it, I need to build a villa for this minister, and he wasn't pleased about it, right? That came out of his end, right? And he rolled out the plans--

HEARING CO-CHAIR TOBIN: Wow.

DR. EISENMAN: --and showed me the bedrooms and everything. But the point was that it's not necessarily that the Chinese are wanting to be corrupt; it's to some degree the environments that you work in when you work in the countries which have low transparency indexes. So I'm not trying to absolve anybody.

HEARING CO-CHAIR TOBIN: No, I understand.

DR. EISENMAN: Yeah. But it's the nature to some degree of the environment, and the standard gauge railway in Kenya has come under a lot of criticism for the cost of the endeavor. And the question has been, and I don't know the answer, is how much of that is corruption?

Now it's an expensive proposition to begin with, right? The British lost a lot building their colonial railway. But the question of whether or not corruption played a role in that is an issue as well. And so again to go back to the answer to Commissioner Shea, a lot of this has to do with the local environments that they're operating in, and whether the authority--

HEARING CO-CHAIR TOBIN: Right.

DR. EISENMAN: --or the state is significant enough to check that issue.

On the other side, however, in China, traditionally, there has been a corrupt mentality in terms of doing business, and so I've heard, for example, one tale in an African country where the Chinese received a criticism for an environmental degradation. The Americans received the same. The Chinese paid off that official and then the official was moved and the paper came back onto their desk.

The Americans said, okay, well, we'll pay you a percentage of it, and it went away, and in the end, the Americans paid less to get rid of it, right? So there is this kind of the nature of doing business in China influences the way that Chinese businessmen behave abroad. That shouldn't be surprising. That's human nature.

But to the extent that China cleans up its act at home, we would expect to see, I think, less corruption abroad. So the door can swing both ways. If Xi is successful in his campaign, if he does wipe out corruption, we should expect to see less corruption in the BRI Initiative than in past loans for infrastructure projects.

HEARING CO-CHAIR TOBIN: I follow your logic, but I also think of the various ports and the junctures and think about, I just worry about the terrorism, money-laundering piece. Thank you.

Mr. Small, do you have comments on either the Japan conversation or on the money laundering/terrorism component?

MR. SMALL: Just to add really on the administration piece, where the current U.S. administration is at, I mean I think the striking thing is the last time the Quad was convening, it was essentially a security-focused discussion.

This time when you had the assistant secretary-level meeting taking place, late last year, a large proportion of the discussions were precisely focused on the strategic economic issues.

Now, as I think Dr. Kliman flagged in the discussions this morning, is the Quad the natural structure through which to have those, to implement some of these things? Not necessarily. I mean I think there's questions about whether that's the natural grouping. If you look at the kind of economic wherewithal that one can bring to bear on these issues, you may end up looking at a slightly different constellation of countries that would be involved.

It's a neat follow-through of countries that are located in the region, but I think the EU is about to launch its Asia connectivity strategy and has substantial financial economic resources to bring to bear there. I think a lot of this will end up being done bilaterally with countries rather than some of these sometimes tricky plurilateral formats.

I think you saw in the President's trip to Japan as well some announcements of new forms of bilateral cooperation with Japan in this area. I mean I think the adoption of the language around the free and open Indo-Pacific was in itself a very sort of significant recognition of some of these prior efforts and thinking that was there on the Japanese side.

And I mean I think this administration, the last administration, of course, had important strategic economic priorities that it was pursuing, including TPP, but this administration is not. But I do think this administration has been very seized with this question of how to think about BRI and some of these issues in a way that I think in the end the previous administration sort of resolved not to come out with a position or a strategy on the issue.

Whereas, I think now the free and open Indo-Pacific strategy, insofar as it's there, is moving into sort of implementation discussions and things. I think a lot of this is very much driven by trying to address some of these strategic economic issues and specifically trying to do so with some of these partners--Japan preeminently but I think the Europeans as well, India, Korea, Australia.

I mean I think there's a lot of countries that are pretty like-minded when it comes to these issues with a lot of assets to bring to bear on this. And I think that's going to be a very important part of implementation.

HEARING CO-CHAIR TOBIN: I'm reminded of conversations we just had this week amongst us about the importance of our allies and how we as we keep moving forward, we're going to keep them high on our agenda for discussion.

Commissioner Stivers, please.

COMMISSIONER STIVERS: Thank you. Thank you. A comment and a question. A comment. Thank you all for your recommendations. I thought that your recommendation sections of your testimony were outstanding, especially on OPIC, Export-Import Bank.

I think we really need some, some very exact, specific recommendations for what the United States Congress can do and what the administration can do as opposed to just, you know, kind of lamenting and exploring what the Belt and Road Initiative is, which is a lot, and that's important, but we have to think of some plans of action.

And it's important to remember, I think, that infrastructure is not the only driver of economic growth. And there are so many different things that we can do to promote growth, and because China is doing it in this manner doesn't always mean that we have to do it how they're doing it or even in the sector that they're doing it.

We have other strengths, and it's important that we play to those strengths. So that's my comment and to thank you.

But a more specific question, something I'm a little bit worried about. Mr. Harris, you mentioned that Japan is considering its role and kind of not sure where they are in terms of their public role or their active role on the Belt and Road Initiative.

What, can you dive into that a little bit? What would that look like on the extremes? Like on the extreme if they wanted to go all in, would they participate in it? Would they fund projects? And on the other, what are the different--what does participation look like for things that Japan would consider? Kind of an extreme and then kind of in the middle of where you think they might go?

MR. HARRIS: So I mean obviously one extreme is exactly where they've been right up until now, which is they stay aloof, you know, they have their own strategy, they pursue their own projects, they look at the region the way they have, and you know in the main that is what they're going to keep doing. They've articulated their own approach. They have their own resources. They have their own institutions.

That is going to be the dominant Japanese approach to the region going forward. I don't think there's any reason to think that that is going to change.

Obviously, the other extreme would be full government participation in some form, and that doesn't look like it's on the table, and, in fact, actually one sign that Japan is not actually trending that way, there was an expectation that when the Diet opened this week, and Prime Minister Abe gave his speech to open the session laying out the government's priorities for the next six months, that he was going to specifically refer to Japanese participation in Belt and Road as a priority for the government going forward, and he mentioned cooperating with China on infrastructure, but it was a much softer mention than I think had been anticipated and certainly the early news reports had suggested he would say.

And so there's definitely a cautiousness on the part of the Japanese government. You know, I think part of this also is just they're talking with Beijing about this, that there's a lot of negotiations. Looking ahead to this year, this anniversary year, they want to do an exchange of visits with Abe going to Beijing and potentially Xi Jinping coming to Tokyo either this year or early next year.

They want to put out an additional communique. They've had a series of communiques in the last 40 years, and they want to put out a new one in which economic cooperation, presumably through the BRI, would be one of the principles of the relationship. But I think getting, getting the form of that right, I think, is taking some time.

And frankly I think Japan, the Japanese government I think is prepared to disappoint Japanese business in some ways where I think they're much more enthusiastic about being involved in projects and cooperating and seeing opportunities to export infrastructure. I think the Japanese government really wants to ensure that this is part of the high-quality infrastructure approach.

So if they see opportunities to there are projects that meet their needs and check the boxes that they've laid out, I think they'll pursue that and support that and use public resources to back that. But I think they're going to be very selective. I think it's very much about the conditions in which cooperation would occur.

And I don't think there's any--there's not really any reason to think that Japan is going to shift from that approach, that I think they would rather be out than go all in. It's either going to be conditional participation or none at all. And there is no reason to think that the Abe government is going to look differently.

COMMISSIONER STIVERS: Okay. Thank you.

HEARING CO-CHAIR TOBIN: Well, thank you, gentlemen. We appreciate your testimony today, and that of all of all of our witnesses during today's three panels. The Commission and guests have indeed been further steeped in Belt and Road, but you can count on the fact that we're all going to have to keep monitoring it.

And I'm grateful for Jonathan Hillman's database so we can quickly at our fingertips map it and see how it's evolving.

So for today we stand adjourned, and I hope you'll join us for our next hearing, which will take place on February 15.

Thank you.

[Whereupon, at 3:29 p.m., the hearing was adjourned.]